2017 ANNUAL FINANCIAL REPORT

THE OHIO STATE UNIVERSITY

CONTENTS

Message from the President and interim CFO

Dr. Michael V. Drake, President

Michael Papadakis,
Interim Senior Vice President
and CFO, and Treasurer

Ohio State's momentum has never been greater.

Several of our most important indicators are at historic highs and accelerating: applications, graduation rates, academic excellence, diversity, donor support, patient care and the financial standing of our Wexner Medical Center. Now, we have unprecedented opportunity for further transformational growth.

Our strategic plan, launched this year, sets forth key areas of investment that will define the flagship public research university of the 21st century — and our progress is significant.

The university's strategic plan, Time and Change, has five pillars:

1. TEACHING & LEARNING
2. ACCESS, AFFORDABILITY & EXCELLENCE
3. RESEARCH & CREATIVE EXPRESSION
4. ACADEMIC HEALTH CARE
5. OPERATIONAL EXCELLENCE & RESOURCE STEWARDSHIP

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Examples include:

Tuition guarantee
The new Ohio State Tuition Guarantee offers incoming students certainty about the cost of a college education by setting rates for in-state tuition, mandatory fees, room and board that will be frozen for four years.

Tuition coverage
Starting in fall 2018, the university will expand financial aid packages to provide thousands of in-state students whose families are at or below the median income of the state with funding that covers the full cost of tuition and mandatory fees on the Columbus campus.

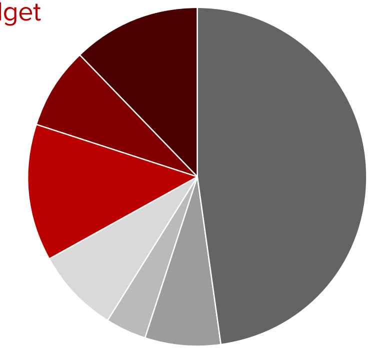
Expanded financial aid
Administrative efficiencies have funded $60 million in President's Affordability Grants over three years; and other strategic institutional funds are supporting the expansion of the Land-Grant Opportunity Scholars program to cover the full cost of admission.

Innovative funding
Ohio State entered into a comprehensive energy management partnership that is providing $1.165 billion in resources for our academic mission, launching an energy-efficiency campaign and creating opportunities in energy and sustainability research.

Digital Flagship University
Through a comprehensive, university-wide digital learning initiative, Ohio State will collaborate with Apple to support educational innovation for students and economic development opportunities for the community. Starting in fall 2018, Ohio State will provide each incoming first-year student with an iPad Pro learning-technology suite.

Revenue Sources
Fiscal 2017 University Budget
(in millions)

Tuition	$927
State appropriations	541
Grants and contracts	812
Patient care	3,341
Sales and services	509
Gifts	260
Net investment income	601
Total Revenues	**$ 6,991**



$1.165 BILLION = LARGEST INVESTMENT in university's mission

Commitment to:

10% improvement in **ENERGY EFFICIENCY** within **10yrs**

$50 MILLION
INNOVATION CENTER to be developed

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Philanthropic support
Buckeye Nation gave to Ohio State in record numbers in FY17, with more than 267,000 donors contributing over $532 million, including a cash total of $403 million. Fundraising activity increased almost 17 percent from the previous record-setting year.

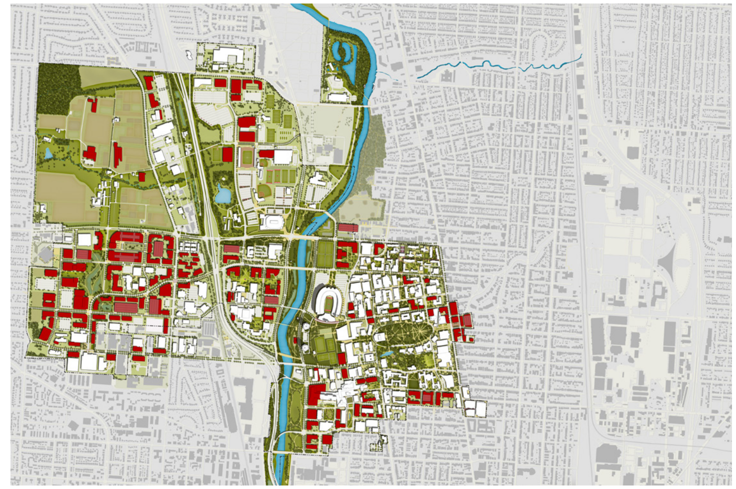
Campus of the future
Projects identified in Framework 2.0, a vision for the physical space of the Columbus campus, include: an interdisciplinary research facility; an arts district that opens the university's front door to the heart of the community; an interdisciplinary health sciences center; and best-of-class hospital and ambulatory facilities at the Wexner Medical Center.

What Ohio State does matters. We will continue to demonstrate a new model in higher education, uplifting the students, families and communities that our university serves.

Sincerely,

Michael V. Drake, MD
President

Michael Papadakis
Interim Senior Vice President and CFO, and Treasurer



The university's physical plan for campus, called Framework 2.0, has four goals:

1. PROMOTE STUDENT SUCCESS
2. SUPPORT ACADEMIC, RESEARCH AND OUTREACH MISSION
3. STRENGTHEN ACCESS AND CONNECTIVITY
4. TRANSFORM NATURAL SYSTEMS AND OPEN SPACE

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Report of Independent Auditors

Report of Independent Auditors

To the Board of Trustees of
The Ohio State University
Columbus, Ohio:

We have audited the financial statements of the primary institution and of the aggregate discretely presented component units, which collectively comprise The Ohio State University (the "University"), appearing on pages 20 to 23, which consist of the statements of net position as of June 30, 2017 and June 30, 2016, the related statements of revenues, expenses and other changes in net position and of cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise the University's basic financial statements. The University is a component unit of the State of Ohio.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on the financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the University's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

PricewaterhouseCoopers LLP, 41 South High Street, Suite 2500, Columbus, OH 43215
T: (614) 225 8700, F: (614) 224 1044, www.pwc.com/us

Report of Independent Auditors

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the primary institution and the aggregate discretely presented component units of the University as of June 30, 2017 and June 30, 2016, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

The accompanying management's discussion and analysis on pages 8 through 19, and the Required Supplementary Information on GASB 68 Pension Liabilities on page 68 are required by accounting principles generally accepted in the United States of America to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the University's basic financial statements. The accompanying other information on the long-term investment pool on pages 69 through 70 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

PricewaterhouseCoopers LLP

November 6, 2017

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Management's Discussion and Analysis | Year ended June 30, 2017 (unaudited) | The Ohio State University

The following Management's Discussion and Analysis, or MD&A, provides an overview of the financial position and activities of The Ohio State University (the "university") for the year ended June 30, 2017, with comparative information for the years ended June 30, 2016 and June 30, 2015. We encourage you to read this MD&A section in conjunction with the audited financial statements and footnotes appearing in this report.

About The Ohio State University

The Ohio State University is the State of Ohio's flagship research institution and one of the largest universities in the United States of America, with over 66,000 students, 7,000 faculty members and 25,000 staff members. Founded in 1870 under the Morrill Land Grant Act, the university – which was originally known as the Ohio Agricultural and Mechanical College – has grown over the years into a comprehensive public institution of higher learning, with over 200 undergraduate majors, 157 master's degree programs, 121 doctoral programs and seven professional degree programs.

The Ohio State University Wexner Medical Center is one of the largest and most diverse academic medical centers in the country and the only academic medical center in central Ohio. As a part of the Wexner Medical Center, the Health System operates under the governance of The Ohio State University Board of Trustees and is comprised of seven hospitals and a network of ambulatory care locations. The Health System provides care across the spectrum from primary care to quaternary specialized care. Key clinical care locations and facilities at the Health System include:

- **University Hospital:** the Medical Center's full-service tertiary care facility that provides care to patients throughout the region.
- **Arthur G. James Cancer Hospital and Solove Research Institute:** one of only 41 National Cancer Institute-designated Comprehensive Cancer Centers. In fiscal 2015, the Arthur G. James Cancer Hospital and Solove Research Institute opened a new tower, which is a transformational facility that fosters collaboration and integration of cancer research and clinical cancer care.
- **Richard M. Ross Heart Hospital:** The Ross is home to OSU's Heart and Vascular program, ranked 26th out of nearly 5,000 hospitals around the country by *US News and World Report*.
- **OSU Harding Hospital:** provides the most comprehensive behavioral healthcare services in central Ohio.
- **University Hospital East:** a full service community hospital.
- **Dodd Hall:** a 60-bed inpatient rehabilitation facility.
- **Brain and Spine Hospital:** provides comprehensive neuroscience care to improve prevention, detection and treatment of brain and spine disorders.
- **Ambulatory Services:** a network of community-based primary and sub-specialty care facilities.

The Health System provided services to approximately 61,700 adult inpatients and 1,764,000 outpatients during fiscal year 2017, 59,300 adult inpatients and 1,724,000 outpatients during fiscal year 2016, and 58,200 adult inpatients and 1,664,000 outpatients during fiscal year 2015.

The university is governed by a board of trustees who are responsible for oversight of academic programs, budgets, general administration, and employment of faculty and staff. The university's 15 colleges, four regional campuses, the Wexner Medical Center and various academic support units operate largely on a decentralized basis. The Board approves annual budgets for university operations, but these budgets are managed at the college and department level.

The following financial statements reflect all assets, liabilities, deferred inflows/outflows and net position (equity) of the university, the Ohio State University Wexner Medical Center, the Ohio Agricultural Research and Development Center (OARDC) and the Ohio Technology Consortium (OH-TECH), which is an umbrella organization that includes the Ohio Academic Resources Network (OARnet), the Ohio Supercomputer Center and the Ohio Library and Information Network (OhioLINK). These entities constitute the "primary government" for financial reporting purposes. In addition, the financial statements include consolidated financial results for a number of "component units", which are legally separate entities that meet the financial accountability criteria set forth in Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, as amended by GASB Statement No. 61, *The Financial Reporting Entity: Omnibus* and Statement No. 80, *Blending Requirements for Certain Component Units—an amendment of GASB Statement No. 14*.

The following component units are considered to "exclusively benefit" the university and are shown in a blended presentation with the primary government:

- The OSU Foundation (a fundraising foundation operating exclusively for the benefit of the university)
- OSU Health Plan (a non-profit organization – formerly known as OSU Managed Health Care Systems – that administers university health care benefits)
- Oval Limited (captive insurer that provides medical malpractice coverage to university hospitals and physicians)

The GASB has indicated that, under the amended consolidation standards, the "exclusive benefit" criterion for blending is not met when a component unit provides services to parties external to the primary government. As a result, the university presents the following component units in a discrete presentation:

- OSU Physicians, Inc. (the practice group for physician faculty members of the Colleges of Medicine and Public Health)
- Campus Partners for Community Urban Redevelopment (a non-profit organization participating in the redevelopment of neighborhoods adjacent to the main Columbus campus)
- Transportation Research Center, Inc. (an automotive research and testing facility in East Liberty, Ohio)
- Dental Faculty Practice Association (the practice group for faculty members of the College of Dentistry)

Condensed financial information for both blended and discretely presented component units is provided in the Notes to the Financial Statements. The university is considered a component unit of the State of Ohio and is included in the State of Ohio's Comprehensive Annual Financial Report.

About the Financial Statements

The university presents its financial statements in a "business type activity" format, in accordance with GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* and GASB Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities – an amendment of GASB Statement No. 34*. In addition to this MD&A section, the financial statements include a Statement of Net Position, a Statement of Revenues, Expenses and Other Changes in Net Position, a Statement of Cash Flows and Notes to the Financial Statements. Separate columns are presented for the primary institution (which includes the primary government and the blended component units), discretely presented component units and the total university. Unless otherwise specified, the amounts presented in this MD&A are for the primary institution.

The **Statement of Net Position** is the university's balance sheet. It reflects the total assets, deferred outflows, liabilities, deferred inflows and net position (equity) of the university as of June 30, 2017, with comparative information as of June 30, 2016. Liabilities due within one year, and assets available to pay those liabilities, are classified as current. Other assets and liabilities are classified as non-current. Investment assets are carried at fair value. Capital assets, which include the university's land, buildings, improvements, and equipment, are shown net of accumulated depreciation. Net position is grouped in the following categories:

- Net investment in capital assets
- Restricted – Nonexpendable
- Restricted – Expendable
- Unrestricted

In addition to assets, liabilities and net position, the university's balance sheet includes deferred outflows of resources and deferred inflows of resources. Deferred outflows are similar to assets and will be recognized as expense in future periods. Deferred inflows are similar to liabilities and will be recognized as revenue (or reductions of expense) in future periods.

The **Statement of Revenues, Expenses and Other Changes in Net Position** is the university's income statement. It details how net position has increased (or decreased) during the year ended June 30, 2017, with comparative information for the year ended June 30, 2016. Tuition revenue is shown net of scholarship allowances, patient care revenue is shown net of contractual allowances, charity care and bad debt expense, depreciation is provided for capital assets, and there are required subtotals for net operating income (loss) and net income (loss) before capital contributions and additions to permanent endowments.

It should be noted that the required subtotal for net operating income or loss will generally reflect a "loss" for state-supported colleges and universities. This is primarily due to the way operating and non-operating items are defined under GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*. Operating expenses include virtually all university expenses, except for interest on long-term debt. Operating revenues, however, exclude certain significant revenue streams that the university and other public institutions have traditionally relied upon to fund current operations, including state instructional support, current-use gifts and investment income.

The **Statement of Cash Flows** details how cash has increased (or decreased) during the year ended June 30, 2017, with comparative information for the year ended June 30, 2016. It breaks out the sources and uses of university cash into the following categories:

- Operating activities
- Non-capital financing activities
- Capital financing activities
- Investing activities

Cash flows associated with the university's expendable net position appear in the operating and non-capital financing categories. Capital financing activities include payments for capital assets, proceeds from long-term debt and debt repayments. Purchases and sales of investments are reflected as investing activities.

The **Notes to the Financial Statements,** which follow the financial statements, provide additional details on the numbers in the financial statements. Behind the notes is a section that provides required supplementary information related to pensions and other information on the university's Long-Term Investment Pool.

Financial Highlights and Key Trends

Total net position for the primary institution increased $571 million in Fiscal Year 2017, primarily due to revenue growth and increases in operating margins for the OSU Health System and strong investment returns. University investments yielded $601 million of net investment income, reflecting increases in fair value. On April 10, 2017, the university entered into a 50-year comprehensive energy management agreement with Ohio State Energy Partners and received a $1.09 billion upfront payment upon settlement on July 6, 2017.

Demand for an Ohio State education remains strong, and student outcomes continue to improve. 66,046 students were enrolled in Autumn 2016, up 862 students compared to Autumn 2015. 94% of the freshmen enrolled in Autumn 2015 returned to OSU in Autumn 2016. Over the past five years, four-year graduation rates have been stable at 59%, and six-year graduation rates have increased from 80% to 84%.

The following sections provide additional details on the university's 2017 financial results and a look ahead at significant economic conditions that are expected to affect the university in the future.

Statement of Net Position

During the year ended June 30, 2017, **cash and temporary investment** balances increased $259 million, to $2.23 billion, primarily due to strong operating margins at the OSU Health System. Amounts shown as restricted cash consist primarily of unspent proceeds from the General Receipts Bonds, which are being used to fund various capital projects. Restricted cash balances decreased $137 million, to $666 million at June 30, 2017, reflecting application of bond proceeds to capital projects. The Statement of Cash Flows, which is discussed in more detail below, provides additional information on sources and uses of university cash.

Accounts receivable, net of allowances, increased $63 million, to $576 million at June 30, 2017, primarily due to increases in patient care receivables of the Health System.

The fair value of the university's **long-term investment pool** increased $637 million, to $4.25 billion at June 30, 2017. The increase is primarily due to a combination of $552 million of net investment income and a $250 million investment of Wexner Medical Center Health System cash in the pool. These increases were partially offset by distributions ($167 million) and expenses ($72 million). The long-term investment pool operates similar to a mutual fund, in that each named fund is assigned a number of shares in the pool. It includes the gifted endowment funds of the university, gifted endowment funds of the OSU Foundation, and operating funds which have been internally designated to function as endowments. The pool is invested in a diversified portfolio of equity and fixed-income securities, partnerships and hedge funds that is intended to provide the long-term growth necessary to preserve the value of these funds, adjusted for inflation, while making distributions to support the university's mission.

The university has established a **securities lending program** through its custodian bank for the long-term investment pool. Securities loaned by the university are secured by collateral in the form of cash, equity, U.S. government obligations, and foreign government/private debt. The portion of this collateral that was received in cash totaled $16 million and $28 million at June 30, 2017 and 2016, respectively, and is reflected in the Statement of Net Position as a current asset and a corresponding current liability.

Other long-term investments are non-unitized investments that relate primarily to gift arrangements between donors and the OSU Foundation and long-term investments of operating funds. These investments increased $11 million, to $144 million, at June 30, 2017.

Statement of Net Position (in thousands)

	2017	2016	2015
Cash and temporary investments	$ 2,230,609	$ 1,971,929	$ 1,782,051
Receivables, inventories, prepaids and other current assets	757,389	709,872	664,402
Total current assets	2,987,998	2,681,801	2,446,453
Restricted cash	666,032	802,707	375,425
Non-current notes and pledges receivable	108,073	106,629	118,257
Long-term investment pool	4,253,459	3,616,562	3,659,387
Other long-term investments	143,638	132,971	93,367
Capital assets, net of accumulated depreciation	4,883,584	4,852,433	4,803,242
Total non-current assets	10,054,786	9,511,302	9,049,678
Total assets	13,042,784	12,193,103	11,496,131
Deferred outflows	1,012,937	698,125	227,083
Total assets and deferred outflows	$ 14,055,721	$ 12,891,228	$ 11,723,214
Accounts payable and accrued expenses	$ 524,754	$ 469,216	$ 447,364
Deposits and advance payments for goods and services	223,880	216,372	261,537
Current portion of bonds, notes and lease obligations	651,984	658,418	655,919
Other current liabilities	87,708	94,883	76,788
Total current liabilities	1,488,326	1,438,889	1,441,608
Non-current portion of bonds, notes and lease obligations	2,640,142	2,714,842	2,186,090
Net pension liability	3,565,362	2,794,626	2,130,432
Other non-current liabilities	366,057	401,708	380,382
Total non-current liabilities	6,571,561	5,911,176	4,696,904
Total liabilities	8,059,887	7,350,065	6,138,512
Deferred inflows	471,288	587,150	693,251
Net investment in capital assets	2,259,207	2,282,647	2,340,342
Restricted:			
Nonexpendable	1,480,440	1,370,064	1,355,560
Expendable	1,195,515	908,953	993,000
Unrestricted	589,384	392,349	202,549
Total net position	5,524,546	4,954,013	4,891,451
Total liabilities, deferred inflows and net position	$ 14,055,721	$ 12,891,228	$ 11,723,214

Capital assets, which include the university's land, buildings, improvements, equipment and library books, grew $31 million, to $4.88 billion at June 30, 2017. The university depreciates its capital assets on a straight-line basis, using estimated useful lives ranging from 5 years (for computer equipment and software) to 100 years (for certain building components such as foundations).

In 2017, the university completed construction of the 116,000 square foot Jameson Crane Sports Medicine Institute. The $38 million comprehensive sports medicine building is a state of art facility and the largest of its kind in the Midwest. The Institute houses 15 inter-disciplinary specialties and 160 sports medicine faculty and staff. Mount Hall underwent a 73,000 square foot, $15 million renovation to house approximately 450 staff from the Office of the Chief Information Officer and Office of Distance Education. Four new aircraft hangars were constructed as part of the $5 million initial phase of a $20 million University Airport enhancement.

Major infrastructure improvements completed in 2017 included $8 million related to the street and bridge maintenance across campus including Defiance Drive, walkways between buildings on West Campus, portions of Neil Avenue, Hagerty Drive, 18th Avenue, Service Annex Drives A-B, Woody Hayes, Herrick Drive, and the Herrick Drive Bridge over the Olentangy River.

In addition, several major construction projects are currently underway or in advanced planning stages, including:

- Arts & Science Academic Buildings— The $59 million project will renovate Pomerene, and Oxley Halls to accommodate academic programs. In addition, the Baker Commons enabling project renovated space to accommodate the Office of Disability Services staff who relocated from Pomerene. Pomerene and Oxley Halls are slated for completion in the spring of 2018.
- Covelli Multi-Sport Arena – The $50 million project will construct a new multi-sport arena to house the men's and women's varsity volleyball teams, and fencing, wrestling, and gymnastics matches. The project is in the design phase and slated for completion in the spring of 2019.
- Marion Science and Engineering Building – A new $15 million Science and Engineering building completed in July 2017 replaces an older facility, expands space for the engineering program and enhances the quality of the teaching and research on the Marion regional campus.
- Ohio Stadium Upgrades – The $39 million project will include power upgrades, suite expansion and renovation, C-Deck restoration, and a suite and loge addition. The project is currently in the design phase and slated for completion for the summer of 2018.
- Student Athlete Development Center – The $43 million project will construct a state-of-the-art athletic training center with new weight training and cardio conditioning for use by most of the university's sports programs. The project is in the design phase and slated for completion the summer of 2018.
- Schottenstein Center-North Expansion and Concourse Renovation – The $32 million project will renovate the concourse walls and lighting and include an addition to the north end of the facility. The initial phase of the project is slated for completion in summer 2018.

University capital expenditures totaled $415 million in 2017, including $164 million of capital expenditures for the Wexner Medical Center Health System. The university's estimated future capital commitments, based on contracts and purchase orders, total approximately $262 million at June 30, 2017.

Accounts payable and accrued expenses were up $56 million, to $525 million at June 30, 2017, primarily due to increases in accrued compensation and benefits (up $33 million) and the accrual of a $16 million fee related to the settlement of an interest-rate swap agreement associated with the comprehensive energy management agreement. **Deposits and advance payments for goods and services** increased $8 million, to $224million. Increases in advance payments for sponsored programs were partially offset by reduction in unearned sales and service revenues.

University debt, in the form of **bonds, notes and capital lease obligations**, decreased $81 million, to $3.29 billion at June 30, 2017. The university did not issue any new bonds during 2017.

The university's plant debt includes variable rate demand bonds that mature at various dates through 2044. GASB Interpretation 1, *Demand Bonds Issued by State and Local Governmental Entities*, provides guidance on the statement of net position classification of these bonds. Under GASB Interpretation 1, outstanding principal balances on variable rate demand bonds may be classified as non-current liabilities if the issuer has entered into a "takeout agreement" to convert bonds "put" but not resold into some other form of long-term obligation. In the absence of such an agreement, the total outstanding principal balances for these bonds are required to be classified as current liabilities.

Although it is the university's intent to repay its variable rate demand bonds in accordance with the maturities set forth in the bond offering circulars, the university does not have "take-out agreements" in place per the GASB Interpretation 1 requirements. Accordingly, the university has classified the total outstanding principal balances on its variable rate demand bonds as current liabilities. These obligations totaled $588 million and $596 million at June 30, 2017 and 2016, respectively.

GASB Statement No. 68 requires governmental employers participating in defined benefit pension plans to recognize liabilities for plans whose actuarial liabilities exceed the plan's net assets. These liabilities are referred to as net pension liabilities. The university participates in two multi-employer cost-sharing retirement systems, OPERS and STRS-Ohio. Under GASB 68, the university is required to record a liability for its proportionate share of the net pension liabilities of the retirement systems. The university's share of these **net pension liabilities** increased $771 million, to $3.57 billion at June 30, 2017. Total net pension liabilities increased at OPERS primarily due to a reduction in the discount rate used in the liability calculation (from 8% to 7.5%). Total net pension liabilities increased at STRS-Ohio primarily due to lower-than-projected investment returns. Net deferrals associated with pensions increased $422 million, to $975 million at June 30, 2017. These deferrals will be recognized as pension expense in future periods. Total pension expense recognized by the university increased $255 million, to $664 million in 2017. Total pension expense includes $315 million of employer contributions and $349 million in GASB 68 accruals.

It should be noted that, in Ohio, employer contributions to the state's cost-sharing multi-employer retirement systems are established by statute. These contributions, which are payable to the retirement systems one month in arrears, constitute the full legal claim on the university for pension funding. Although the liabilities recognized under GASB 68 meet the GASB's definition of a liability in its conceptual framework for accounting standards, they do not represent legal claims on the university's resources, and there are no cash flows associated with the recognition of net pension liabilities, deferrals and related expense.

Other (non-pension) **deferred inflows** consist primarily of the unamortized proceeds of the parking service concession arrangement. The parking deferred inflows, which totaled $436 million at June 30, 2017, are being amortized to operating revenue on a straight-line basis over the 50-year life of the agreement. In addition, the deferred inflows include $19 million of deferred gains on debt-related transactions.

Prior-Year Highlights: ***In 2016***, the university issued $600 million in taxable Fixed Rate General Receipts Bonds and $31 million in tax-exempt Fixed Rate General Receipts Bonds. Net pension liabilities increased $664 million, to $2.79 billion, reflecting increases in actuarial liabilities and decreases in fiduciary net position for both STRS-Ohio and OPERS. Cash and temporary investment balances increased $190 million, to $1.97 billion, primarily due to strong operating margins at the OSU Health System. ***In 2015***, the university implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. The adoption of the new standard resulted in a $2.16 billion reduction in the university's opening unrestricted net position. The net pension liability recognized by the university at June 30, 2015 was $2.13 billion. Capital assets grew $310 million, to $4.80 billion, as the university completed several large projects and continued work on the North Residential District Transformation (NRDT).

Statement of Revenues, Expenses and Other Changes in Net Position

Summary of Revenues, Expenses and Changes in Net Position (in thousands)

	2017	2016	2015
Operating Revenues:			
Tuition and fees, net	$ 927,317	$ 884,805	$ 850,289
Grants and contracts	677,361	630,858	657,238
Auxiliary enterprises sales and services, net	309,497	261,761	261,351
OSU Health System sales and services, net	2,853,177	2,625,075	2,357,824
Departmental sales and other operating revenues	204,091	173,882	181,532
Total operating revenues	4,971,443	4,576,381	4,308,234
Operating Expenses:			
Educational and general	2,488,642	2,359,243	2,238,015
Auxiliary enterprises	313,185	254,137	248,879
OSU Health System	2,595,797	2,251,030	1,970,124
Depreciation	374,615	351,901	335,881
Total operating expenses	5,772,239	5,216,311	4,792,899
Net operating loss	(800,796)	(639,930)	(484,665)
Non-operating revenues (expenses):			
State share of instruction and line-item appropriations	473,061	456,063	435,824
Gifts – current use	181,212	156,737	163,800
Net investment income (loss)	600,701	(10,513)	173,295
Grants, interest expense and other non-operating	(38,854)	(11,135)	25,699
Net non-operating revenue	1,216,120	591,152	798,618
Income (loss) before other changes in net position	415,324	(48,778)	313,953
State capital appropriations	68,270	36,381	40,868
Private capital gifts	26,762	10,422	1,688
Additions to permanent endowments	52,458	64,537	62,295
Capital contributions and other changes in net position	7,719	-	-
Total other changes in net position	155,209	111,340	104,851
Increase in net position	570,533	62,562	418,804
Net position – beginning of year	4,954,013	4,891,451	6,637,119
Cumulative effect of accounting change	-	-	(2,164,472)
Net position – end of year	$ 5,524,546	$ 4,954,013	$ 4,891,451

Net **tuition and fees** increased $43 million, to $927 million in 2017, primarily due to a 6% increase in non-resident enrollments and a 5% increase in the non-resident surcharge. Resident enrollments were flat. The university did not increase its undergraduate instructional and mandatory fees for fiscal 2017.

Operating **grant and contract revenues** increased $47 million, to $677 million in 2017. Federal grant and contract revenues were up $11 million, to $324 million, reflecting increases in federal sponsored programs. State grants and contract revenues were up $7 million, to $77 million, reflecting increases in research grants from several state agencies. Private grant and contract revenues increased $27 million, to $254 million, primarily due to increases in grants to the College of Medicine.

Educational and general expenses increased $129 million, or 5%, to $2.49 billion in 2017. Additional details are provided below.

The overall increase in educational and general expense is related to GASB 68 pension accruals. These accruals are allocated to functional expense lines in the Statement of Revenues, Expenses and Other Changes in Net Position, based on pension-eligible salaries. Excluding these accruals, total educational and general expenses were relatively flat, increasing $8 million in 2017. Scholarships and fellowships, net of amounts shown as reductions of tuition and auxiliary revenues, increased $9 million, to $130 million in 2017, reflecting increases in unrestricted (university-funded) student financial aid.

Total **auxiliary revenues** increased $48 million, to $309 million in 2017, primarily due to an increase in beds in the North Residential District and additional meal plans sold to second-year students, who are now required to live in the campus dorms. **Auxiliary expenses** increased $59 million, to $313 million, primarily due to increases in housing and dining costs.

Educational and General Expenses (in thousands)

	2017	2016	2015
Instruction and departmental research	$ 1,006,411	$ 994,287	$ 940,105
Separately budgeted research	497,508	444,077	434,624
Public service	175,101	160,281	131,358
Academic support	222,043	207,688	192,140
Student services	108,041	103,784	100,229
Institutional support	254,782	227,157	230,749
Operation and maintenance of plant	94,687	101,007	95,866
Scholarships and fellowships	130,069	120,962	112,944
Total	$ 2,488,642	$ 2,359,243	$ 2,238,015

Health System operating revenues grew $228 million, to $2.85 billion in 2017. Operating expenses (excluding depreciation, interest and transfers) increased $345 million, to $2.60 billion. An in-depth look at the Health System, as presented in their stand-alone financial statements, is provided below.

The Health System operates over 1,300 inpatient beds and serves as a major tertiary and quaternary referral center for Ohio and the Midwest. The Wexner Medical Center delivers superior patient care, quality outcomes, and patient safety and has been recognized by US News and World Report for 25 consecutive years as one of "America's Best Hospitals" and has seven nationally ranked specialties and is one of only a handful of hospitals in the country ranked in multiple specialties. Less than 1% of hospitals in the country achieved that honor. The Wexner Medical Center was selected by Becker Hospital Review for its 2017 list of "100 Great Hospitals in America" for excellence in patient care and clinical research, leadership in innovations and ranking and awards. The Health System is proud to be the first health system in central Ohio to have a hospital achieve Magnet Recognition, one of the highest honors awarded for nursing excellence. The Ross Heart Hospital, University Hospital, and the Arthur G. James Cancer Hospital and Richard J. Solove Research Institute are all designated Magnet hospitals. The Health System works with a strong physician group that provides exceptional patient care. Physicians at the Wexner Medical Center were selected by Castle Connolly because they are among the very best in their specialties.

In fiscal 2017, the Health System continued its expansion strategy by opening Outpatient Care Upper Arlington, The Jameson Crane Sports Medicine Institute, and the Brain and Spine Hospital. The Outpatient Care Upper Arlington facility will provide high quality and convenient health services from disease prevention and primary care to highly specialized women's health services and beyond. The Jameson Crane Sports Medicine Institute is the Midwest's largest and most advanced sports medicine facility and is the home of innovation and discovery in helping people improve their athletic performance, recover from injury and prevent future injuries. The new state of the art complex integrates research, teaching, clinical care, and performance training under one roof. The Brain and Spine Hospital is home to central Ohio's top-ranked Neurology and Neurosurgery program. The new Brain and Spine Hospital combines the talent and resources of doctors and researchers at the Wexner Medical Center's Neurological Institute in one comprehensive hospital. It includes specialized units for stroke care, neurotrauma and traumatic brain injuries, spinal cord injuries and spine surgery, epilepsy, chronic pain, acute rehabilitation, and neurosurgery.

The largest development project (Medical Center Expansion) in the history of The Ohio State University was completed in fiscal 2015. Included in Medical Center Expansion was the construction of the new Arthur G. James Cancer Hospital and Richard J. Solove Research Institute ("The James"). The new tower is a transformational facility that fosters the collaboration and integration of cancer research and clinical cancer care. The James is the largest cancer hospital in the Midwest and the third largest in the nation. The new 21-level tower opened in December of fiscal year 2015.

In 2017, the Health System continued with the Medical Center mission of "improving people's lives through innovation in research, education and patient care" and remained financially sound due to solid activity levels and strong expense management. Inpatient admissions increased 3.9% compared to the prior year. Outpatient visits increased 2.3% and total observation patients increased 6.5% over the previous year. Outpatient visits experienced significant growth specific to Surgical, Radiation Oncology, Rehab Services, Radiology, and Chemotherapy. The Health System continued its ambulatory expansion strategy with the opening of the Upper Arlington outpatient facility in Kingsdale and The Jameson Crane Sports Medicine Institute this year. These new locations along with the outpatient rehabilitation program achieved significant growth of 20.7% over the prior year for Ambulatory Services.

The Health System experienced strong surgical volumes in 2017 and was 5.4% above the prior year activity. Service lines contributing to the growth in surgical volumes in 2017 were Cancer, Transplant, Orthopedic Surgery, Trauma/Critical Care, Burn, Ophthalmology, and Urology. The growth in surgical volumes contributed to increases in admissions, revenues, and outpatient volumes

Total operating revenues grew $225.1 million, or 8.6% from the prior year. The increases in operating revenues are a result of strong admissions, surgical volumes, and increased outpatient activities. Total operating revenues grew $259.9 million, or 11.0% from 2015 to 2016. The increases from 2015 to 2016 are a result of the additional volumes related to Medical Center Expansion and the new James Cancer Hospital being open for the entire fiscal year and strong revenues related to the Retail Pharmacy.

Approximately 93% of total operating revenues are from patient care activities. Other operating revenues is composed of items such as reference labs, cafeteria operations, rental agreements and other sources. To ensure appropriate access and education for outpatients, the Health System opened the Retail Pharmacy in 2015 due to the increasing complexity and significantly growing number of specialty oral and self-administered pharmaceuticals available for cancer and non-cancer patients. The Retail Pharmacy contributed $92.5 million of operating revenues in 2017, $70.3 million in 2016, and $32.7 million in 2015. To standardize care across the Neonatal Intensive Care Units in central Ohio, the Health System shares other revenue from Nationwide Children's Hospital management of the unit. The Neonatal Intensive Care Units contributed $16.4 million of operating revenues in 2017, $18.8 million in 2016, and $14.7 million in 2015.

Operating expenses increased $300.2 million, or 12.9% from 2016 to 2017. The increase in salaries and benefits from 2016 to 2017 is reflective of increased salaries and a larger workforce due to the additional volumes related to Brain and Spine Hospital, Jameson Crane Sports Medicine Institute, and Outpatient Care Upper Arlington as well as the continued growth at the James Cancer Hospital. Strong admissions, surgical volumes, and increased outpatient activities as well as higher Retail Pharmacy volumes contributed to the increase in supplies and drugs. The increase in purchased services from 2016 to 2017 is reflective of increased preventative maintenance costs for information technology and medical equipment as well as an increase in franchise fee for the hospitals. The increase in pension expense from 2016 to 2017 is related to the reduction in the discount rate used in the liability calculation and lower-than-projected investment returns.

Income before other changes in Net Position was $215 million in 2017 compared to $248.6 million in 2016. Pension expense was $168.1 million in 2017 compared to $63 million in 2016 reflecting annual accounting under GASB 68. Income before other changes in Net Position for clinical activities was $383.2 million in 2017 compared to $312.3 million in 2016 reflecting strong activities, a strong patient mix and maintaining expenses in line with activities throughout the Health System.

The Health System's other changes in net position for fiscal year 2017 includes Medical Center Investments of $145.2 million reinvested back into research, education, and programs at the Medical Center. This compares to Medical Center Investments of $125.3 million in 2016 and $136.9 million in 2015. Additionally, other changes in net position include $17.6 million for capital expansion and hospital projects for fiscal year 2017.

Revenues and operating expenses of **OSU Physicians, Inc.** (OSUP), the University's central practice group for physician faculty members of the College of Medicine and Public Health, continued to grow in 2017. Total consolidated operating revenues increased $9 million, to $496 million, reflecting increases in patient volumes. Total consolidated OSUP expenses (excluding depreciation and interest) increased $3 million to $444 million in 2017. These figures are included in the Discretely Presented Component Units columns of the university's financial statements.

Total state operating support increased $17 million, to $473 million in 2017. **State share of instruction** increased $23 million, or 6%, to $385 million. This increase was partially offset by a $6 million decrease in **state line-item appropriations,** to $88 million in 2017.

State capital appropriations increased $32 million, to $68 million in 2017, reflecting funding for OH-Tech capital projects ($16 million), the Pomerene Oxley Hall renovation ($10 million) and the Newark Adena Hall renovation ($3 million).

Total **gifts** to the university increased $29 million, to $260 million in 2017. Increases in current use and capital gifts were partially offset by a $12million decrease in endowment gifts. Several colleges and support units received gifts in excess of $1 million in 2017, including Veterinary Medicine, Food Agricultural and Environmental Sciences, the Wexner Center for the Arts, the Comprehensive Cancer Center, the College of Medicine, the College of Arts and Sciences and the Fisher College of Business. Gift receipts from the annual Pelotonia ride increased $1 million, to $28 million in 2017. During 2017, over 267,000 alumni and friends made gifts to the university, up from 246,000 in 2016.

University investments yielded $601 million of **net investment income** in 2017. The net investment income figure includes $124 million of interest and dividend income and a $477 million net increase in the fair value of university investments.

To start the fiscal year, the Brexit vote impacted world financial markets as the U.S. 10-year treasury hit a low yield of 1.37% in the flight to quality that ensued. Over the rest of the year, world events and political uncertainty in the U.S. raised concerns about prospects for economic growth. Despite this backdrop, structural low world interest rates combined with low equity market volatility driven by solid corporate earnings and consumer confidence supported strong world equity market investment returns. The All Country World Equity Index returned +19.42% and the S&P500 generated a +17.90% for the fiscal year.

The University's Long-Term Investment Pool (LTIP) returned +14.5% for the fiscal year ending June 30, 2017. The LTIP outperformed on a relative basis to each of its individual benchmarks for its three major asset classes; global equities, fixed income and real assets. The LTIP is a diversified portfolio of investments designed to provide steady growth in a risk controlled structure.

Interest expense on plant debt increased $27 million, to $121 million in 2017, primarily due to an increase in interest expense related to the Series 2016A and 2016B bonds and a reduction in capitalized interest.

Prior-Year Highlights: ***In 2016***, OSU Health System operating revenues increased $267 million, to $2.63 billion, reflecting additional volumes related to the Medical Center Expansion and the new James Cancer Hospital (2016 was the first full fiscal year of operations for these facilities). Educational and general expenses increased $121 million, to $2.36 billion. Approximately $64 million of the overall increase in E&G expense was related to GASB 68 pension accruals. University investments yielded an $11 million net investment loss. ***In 2015***, the implementation of GASB 68 reduced beginning net position by $2.16 billion. Excluding the effect of the GASB 68 accounting change, total net position for the primary institution increased $419 million, reflecting revenue growth and increases in operating margins for the OSU Health System and $173 million of net investment income. Other university operating revenues and expenses were relatively flat compared with 2014.

University Cash Flows Summary (in thousands)

	2017	2016	2015
Net cash flows used in operating activities	$ (100,589)	$ (174,888)	$ (113,426)
Net cash flows from non-capital financing activities	787,986	752,926	715,137
Capital appropriations and gifts for capital projects	82,982	46,511	53,092
Proceeds from capital debt	6,430	618,242	300,820
Payments for purchase or construction of capital assets	(414,606)	(428,966)	(610,776)
Principal and interest payments on capital debt and leases, net of federal Build America Bond interest subsidies	(192,914)	(190,501)	(146,095)
Net cash flows used in investing activities	(184,111)	(301,532)	(14,974)
Net increase (decrease) in cash	$ (14,822)	$ 321,792	$ 183,778

Statement of Cash Flows

University cash and cash equivalents decreased $15 million in 2017. Net cash flows from operating and non-capital financing activities increased $109million, to $687 million, as growth in receipts from sales and services, grants and contracts and gifts outpaced increases in operating disbursements. Total cash used by capital financing activities was $518 million, reflecting capital expenditures and payments for debt service. Total cash used by investing activities was $184 million, reflecting net purchases of temporary investments.

Economic Factors That Will Affect the Future

In August 2017, university leadership introduced a new strategic plan "to make the next bold leap in Ohio State's land-grant history of excellence and impact". The strategic plan sets forth five pillars of focus:

- **Teaching and Learning:** Ohio State will be an exemplar of the best teaching, demonstrating leadership by adopting innovative, at-scale approaches to teaching and learning to improve student outcomes.
- **Access, Affordability and Excellence:** Ohio State will further our position as a leading public university offering an excellent, affordable education and promoting economic diversity.
- **Research and Creative Expression:** Ohio State will enhance our position among the top national and international public universities in research and creative expression, both across the institution and in targeted fields – driving significant advances for critical societal challenges.
- **Academic Health Care:** The Ohio State University Wexner Medical Center will continue our ascent as a leading academic medical center, pioneering breakthrough health care solutions and improving people's lives.
- **Operational Excellence and Resource Stewardship:** Ohio State will be an exemplar of best practices in resource stewardship, operational effectiveness, and efficiency and innovation.

The strategic plan reinforces and builds on the priorities set in the 2020 Vision, which President Michael V. Drake established in 2015 to achieve inclusive excellence. Among other goals, the 2020 Vision established financial goals of generating $400 million in support for the academic mission, including $200 million in administrative efficiencies and $200 million in new revenue from sources other than tuition or taxpayers.

The major themes for the university's 2018 budget are access, affordability and excellence.

The university introduced the Ohio State Tuition Guarantee for new first-year students, which provides incoming undergraduates with more certainty about college costs by setting rates for in-state tuition, mandatory fees, room and board for four years. For incoming freshmen on the Columbus campus, in-state tuition and mandatory fees increased 5.5%, but those rates will not change during a four-year education. Meanwhile, the university continued to freeze in-state tuition and mandatory fees for continuing students, who have not experienced an increase since 2012-13. The Board of Trustees also approved a 6% increase in housing rates and a 3% increase in dining fees.

At the same time, Ohio State has expanded financial aid by committing $25 million to the President's Affordability Grant Program for 2017-18 and increasing the value of the Land Grant Opportunity Scholarship to cover the full cost of attendance. The President's Affordability Grants are funded through the university's administrative efficiency program.

Based on what is now known regarding the university's financial outlook, university management anticipates that Ohio State will maintain its sound financial position in Fiscal Year 2018. However, the university does face certain financial challenges, including a slowing state economy and uncertainties related to future federal funding for research. Despite these challenges and uncertainties, the university remains committed to executing its long-range strategic plan. By doing so, we believe that The Ohio State University will continue its progress towards becoming the world's preeminent comprehensive public university.

Cautionary Note Regarding Forward-Looking Statements

Certain information provided by the university, including written as outlined above or oral statements made by its representatives, may contain forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995. All statements, other than statements of historical facts, which address activities, events or developments that the university expects or anticipates will or may occur in the future contain forward-looking information.

In reviewing such information, it should be kept in mind that actual results may differ materially from those projected or suggested in such forward-looking information. This forward-looking information is based upon various factors and was derived using various assumptions. The university does not undertake to update forward-looking information contained in this report or elsewhere to reflect actual results, changes in assumptions or changes in other factors affecting such forward-looking information.

THE OHIO STATE UNIVERSITY

Statements of NET POSITION

June 30, 2017 and June 30, 2016
(in thousands)

	Primary Institution		Discretely Presented Component Units		Total University	
	2017	2016	2017	2016	2017	2016
ASSETS AND DEFERRED OUTFLOWS:						
Current Assets:						
Cash and cash equivalents	$ 584,928	$ 463,075	$ 125,725	$ 87,001	$ 710,653	$ 550,076
Temporary investments	1,645,681	1,508,854	9,216	7,050	1,654,897	1,515,904
Accounts receivable, net	575,875	512,631	47,736	52,715	623,611	565,346
Notes receivable – current portion, net	25,231	22,798	84	2,780	25,315	25,578
Pledges receivable – current portion, net	33,718	35,322	-	-	33,718	35,322
Accrued interest receivable	20,058	19,295	-	-	20,058	19,295
Inventories and prepaid expenses	99,223	111,388	3,628	3,784	102,851	92,316
Investments held under securities lending program	15,949	27,589	-	-	15,949	27,589
Amounts due from (to) primary institution	(12,665)	(19,151)	12,665	19,151	-	-
Total Current Assets	2,987,998	2,681,801	199,054	172,481	3,187,052	2,831,426
Non-current Assets:						
Restricted cash	666,032	802,707	-	-	666,032	802,707
Notes receivable, net	35,723	41,083	2,664	443	38,387	41,526
Pledges receivable, net	72,350	65,546	-	-	72,350	65,546
Long–term investment pool	4,253,459	3,616,562	-	-	4,253,459	3,616,562
Other long–term investments	143,638	132,971	1,550	4,766	145,188	137,737
Capital assets, net	4,883,584	4,852,433	122,167	117,965	4,982,987	4,970,398
Total Non-current Assets	10,054,786	9,511,302	126,381	123,174	10,158,403	9,634,476
Total Assets	13,042,784	12,193,103	325,435	295,655	13,345,455	12,465,902
Deferred Outflows:						
Pension	991,559	675,709	155	124	991,714	675,833
Other deferred outflows	21,378	22,416	-	-	21,378	22,416
Total Deferred Outflows	1,012,937	698,125	155	124	1,013,092	698,249
Total Assets and Deferred Outflows	$ 14,055,721	$ 12,891,228	$ 325,590	$ 295,779	$ 14,358,547	$ 13,164,151
LIABILITIES, DEFERRED INFLOWS AND NET POSITION:						
Current Liabilities:						
Accounts payable and accrued expenses	$ 524,754	$ 469,216	$ 25,204	$ 23,116	$ 549,958	$ 492,332
Deposits and advance payments for goods and services	223,880	216,372	1,718	23,327	225,598	216,843
Current portion of bonds, notes and leases payable	63,624	61,983	946	811	64,570	62,794
Long–term bonds payable, subject to remarketing	588,360	596,435	-	-	588,360	596,435
Liability under securities lending program	15,949	27,589	-	-	15,949	27,589
Other current liabilities	93,357	91,977	-	1,980	93,357	93,957
Amounts due to (from) primary institution – current	(21,598)	(24,683)	21,598	24,683	-	-
Total Current Liabilities	1,488,326	1,438,889	49,466	73,917	1,537,792	1,489,950
Non-current Liabilities:						
Bonds, notes and leases payable	2,640,142	2,714,842	15,738	14,735	2,655,880	2,729,577
Net pension liability	3,565,362	2,794,626	382	366	3,565,744	2,794,992
Compensated absences	164,594	159,874	-	-	164,594	159,874
Self–insurance accruals	81,239	94,616	-	-	81,239	94,616
Amounts due to third–party payers – Health System	38,032	42,745	-	-	38,032	42,745
Obligations under annuity and life income agreements	30,473	29,276	-	-	30,473	29,276
Refundable advances for Federal Perkins loans	31,714	32,110	-	-	31,714	32,110
Other non-current liabilities	101,702	113,057	23,566	405	102,504	113,462
Amounts due to (from) primary institution – non-current	(81,697)	(69,970)	81,697	69,970	-	-
Total Non-current Liabilities	6,571,561	5,911,176	121,383	85,476	6,670,180	5,996,652
Total Liabilities	8,059,887	7,350,065	170,849	159,393	8,207,972	7,486,602
Deferred Inflows:						
Parking service concession arrangement	435,807	445,439	-	-	435,807	445,439
Pension	16,342	122,369	10	7	16,352	122,376
Other deferred inflows	19,139	19,342	-	-	19,139	19,342
Total Deferred Inflows	471,288	587,150	10	7	471,298	587,157
Net Position:						
Net investment in capital assets	2,259,207	2,282,647	105,430	100,068	2,364,637	2,382,715
Restricted:						
Non-expendable	1,480,440	1,370,064	-	-	1,480,440	1,370,064
Expendable	1,195,515	908,953	-	-	1,195,515	908,953
Unrestricted	589,384	392,349	49,301	36,311	638,685	428,660
Total Net Position	5,524,546	4,954,013	154,731	136,379	5,679,277	5,090,392
Total Liabilities, Deferred Inflows and Net Position	$ 14,055,721	$ 12,891,228	$ 325,590	$ 295,779	$ 14,358,547	$ 13,164,151

The accompanying notes are an integral part of these financial statements.

Statements of REVENUES, EXPENSES, AND OTHER CHANGES IN NET POSITION

For the years ended June 30, 2017 and June 30, 2016 (in thousands)

	Primary Institution		Discretely Presented Component Units		Total University	
	2017	2016	2017	2016	2017	2016
Operating Revenues:						
Student tuition and fees (net of scholarship	$ 927,317	$ 884,805	$ -	$ -	$ 927,317	$ 884,805
allowances of $179,071 and $180,828, respectively)			-			
Federal grants and contracts	324,462	313,906	12,517	11,963	336,979	325,869
State grants and contracts	77,139	70,499	-	-	77,139	70,499
Local grants and contracts	21,427	18,701	-	-	21,427	18,701
Private grants and contracts	254,333	227,752	47,182	40,988	301,515	268,740
Sales and services of educational departments	145,994	138,502	8,935	8,757	154,929	147,259
Sales and services of auxiliary enterprises (net of scholarship allowances of $31,016 and $25,133, respectively)	309,497	261,761	-	-	309,497	261,761
Sales and services of the OSU Health System, net	2,853,177	2,625,075	-	-	2,844,327	2,625,075
Sales and services of OSU Physicians, Inc., net	-	-	496,364	487,429	496,364	487,429
Other operating revenues	58,097	35,380	-	-	58,097	35,380
Total Operating Revenues	4,971,443	4,576,381	564,998	549,137	5,527,591	5,125,518
Operating Expenses:						
Educational and General:						
Instruction and departmental research	1,006,411	994,287	6,081	5,452	1,012,492	999,739
Separately budgeted research	497,508	444,077	21,566	26,479	519,074	470,556
Public service	175,101	160,281	10,780	9,815	185,881	170,096
Academic support	222,043	207,688	-	-	222,043	207,688
Student services	108,041	103,784	-	-	108,041	103,784
Institutional support	254,782	227,157	17,360	10,118	272,142	237,275
Operation and maintenance of plant	94,687	101,007	7,489	7,454	102,176	108,461
Scholarships and fellowships	130,069	120,962	-	-	130,069	120,962
Auxiliary enterprises	313,185	254,137	-	-	313,185	254,137
OSU Health System	2,595,797	2,251,030	-	-	2,595,797	2,242,256
OSU Physicians, Inc.	-	-	444,361	441,333	444,361	441,333
Depreciation	374,615	351,901	7,138	6,425	381,753	358,326
Total Operating Expenses	5,772,239	5,216,311	514,775	507,076	6,287,014	5,714,613
Net Operating Income (Loss)	(800,796)	(639,930)	50,223	42,061	(759,423)	(589,095)
Non–operating Revenues (Expenses):						
State share of instruction and line–item appropriations	473,061	456,063	-	-	473,061	456,063
Federal subsidies for Build America Bonds interest	10,561	10,523	-	-	10,561	10,523
Federal non–exchange grants	54,962	55,694	-	-	54,962	55,694
State non–exchange grants	9,434	9,643	-	-	9,434	9,643
Gifts	181,212	156,737	-	-	181,212	156,737
Net investment income (loss)	600,701	(10,513)	481	(169)	601,182	(10,376)
Interest expense on plant debt	(121,071)	(93,885)	(1,584)	(1,610)	(122,655)	(95,495)
Other non–operating revenues (expenses)	7,261	6,890	(30,768)	(8,550)	(14,657)	(6,951)
Net Non–operating Revenue	1,216,121	591,152	(31,871)	(10,329)	1,193,100	575,838
Income (loss) before Other Changes in Net Position	415,325	(48,778)	18,352	31,732	433,677	(13,257)
Other Changes in Net Position:						
State capital appropriations	68,270	36,381	-	-	68,270	36,381
Private capital gifts	26,761	10,422	-	-	26,761	10,422
Additions to permanent endowments	52,458	64,537	-	-	52,458	64,537
Capital contributions and other changes in net position	7,719	-	-	3,789	7,719	-
Total Other Changes in Net Position	155,208	111,340	-	3,789	155,208	111,340
Increase in Net Position	570,533	62,562	18,352	35,521	588,885	98,083
Net Position - Beginning of Year	4,954,013	4,891,451	136,379	100,858	5,090,392	4,992,309
Net Position - End of Year	$ 5,524,546	$ 4,954,013	$ 154,731	$ 136,379	$ 5,679,277	$ 5,090,392

The accompanying notes are an integral part of these financial statements.

Statements of CASH FLOWS

Years Ended June 30, 2017 and June 30, 2016
(in thousands)

	Primary Institution		Discretely Presented Component Units		Total University	
	2017	2016	2017	2016	2017	2016
Cash Flows from Operating Activities:						
Tuition and fee receipts	$ 808,684	$ 795,196	$ -	$ -	$ 808,684	$ 795,196
Grant and contract receipts	688,946	632,073	61,254	73,351	750,200	705,424
Receipts for sales and services	3,250,797	2,975,167	517,885	487,945	3,759,832	3,463,112
Payments to or on behalf of employees	(2,237,758)	(2,214,578)	(324,012)	(306,613)	(2,561,770)	(2,521,191)
University employee benefit payments	(595,410)	(619,964)	(78,703)	(76,190)	(674,113)	(696,154)
Payments to vendors for supplies and services	(1,941,533)	(1,674,593)	(108,548)	(119,918)	(2,050,081)	(1,785,737)
Payments to students and fellows	(121,109)	(112,465)	-	-	(121,109)	(112,465)
Student loans issued	(9,305)	(7,074)	-	-	(9,305)	(7,074)
Student loans collected	10,166	10,406	-	-	10,166	10,406
Student loan interest and fees collected	1,369	2,407	-	-	1,369	2,407
Other receipts	44,564	38,537	-	-	44,564	38,537
Net cash provided (used) by operating activities	(100,589)	(174,888)	67,876	58,575	(41,563)	(107,539)
Cash Flows from Non-capital Financing Activities:						
State share of instruction and line–item appropriations	473,061	456,063	-	-	473,061	456,063
Non–exchange grant receipts	64,396	65,337	-	-	64,396	65,337
Gift receipts for current use	188,579	158,991	-	-	188,579	158,991
Additions to permanent endowments	52,458	64,537	-	-	52,458	64,537
Drawdowns of federal direct loan proceeds	322,405	321,661	-	-	322,405	321,661
Disbursements of federal direct loans to students	(323,813)	(321,146)	-	-	(323,813)	(321,146)
Repayment of loans from related organization	667	2,193	-	-	667	2,193
Amounts received for annuity and life income funds	2,567	5,913	-	-	2,567	5,913
Amounts paid to annuitants and life beneficiaries	(1,700)	(1,632)	-	-	(1,700)	(1,632)
Agency funds receipts	4,893	4,626	-	-	4,893	4,626
Agency funds disbursements	(4,645)	(4,412)	-	-	(4,645)	(4,412)
Other receipts (payments)	9,118	795	(17,169)	2,995	799	(4,984)
Net cash provided (used) by non-capital financing activities	787,986	752,926	(17,169)	2,995	779,667	747,147
Cash Flows from Capital Financing Activities:						
Proceeds from capital debt	6,430	618,242	150	-	6,580	618,242
State capital appropriations	67,662	36,783	-	-	67,662	36,783
Gift receipts for capital projects	15,320	9,728	-	-	15,320	9,728
Payments for purchase or construction of capital assets	(414,606)	(428,966)	(21,254)	(44,479)	(435,860)	(473,445)
Proceeds from sale of capital assets	-	-	9,172		9,172	
Principal payments on capital debt and leases	(79,528)	(94,308)	(1,058)	(823)	(80,586)	(95,131)
Interest payments on capital debt and leases	(124,267)	(106,654)	(458)	(1,610)	(124,725)	(108,264)
Federal subsidies for Build America Bonds interest	10,881	10,461	-	-	10,881	10,461
Net cash provided (used) by capital financing activities	(518,108)	45,286	(13,448)	(46,912)	(531,556)	(1,626)
Cash Flows from Investing Activities:						
Net (purchases) sales of temporary investments	(137,323)	(294,511)	(2,166)	(159)	(139,489)	(294,670)
Proceeds from sales and maturities of long–term investments	1,866,011	1,578,221	3,215	-	1,869,226	1,578,221
Investment income	123,274	95,927	416	(169)	123,690	95,758
Purchases of long–term investments	(2,036,073)	(1,681,169)	-	(4,030)	(2,036,073)	(1,685,199)
Net cash provided (used) by investing activities	(184,111)	(301,532)	1,465	(4,358)	(182,646)	(305,890)
Net Increase (Decrease) in Cash	(14,822)	321,792	38,724	10,300	23,902	332,092
Cash and Cash Equivalents – Beginning of Year	1,265,782	943,990	87,001	76,701	1,352,783	1,020,691
Cash and Cash Equivalents – End of Year	$ 1,250,960	$ 1,265,782	$ 125,725	$ 87,001	$ 1,376,685	$ 1,352,783

The accompanying notes are an integral part of these financial statements.

Statements of CASH FLOWS (continued)

Years Ended June 30, 2017 and June 30, 2016
(in thousands)

	Primary Institution		Discretely Presented Component Units		Total University	
	2017	2016	2017	2016	2017	2016
Reconciliation of Net Operating Loss (Income) to Net Cash Used by Operating Activities:						
Operating loss (income)	$ (800,796)	$ (639,930)	$ 50,223	$ 42,061	$ (759,423)	$ (589,095)
Adjustments to reconcile net operating loss (income) to net cash provided (used) by operating activities:						
Depreciation expense	374,615	351,901	7,138	6,425	381,753	358,326
Impairment and demolition expense	-	-	1,675	-	1,675	
Changes in assets and liabilities:						
Accounts receivable, net	(52,801)	(28,621)	5,044	(3,473)	(47,757)	(32,094)
Notes receivable, net	861	2,783	473	(1,806)	1,334	977
Accrued interest receivable	(344)	(77)	-	-	(344)	(77)
Inventories and prepaid expenses	12,165	(28,454)	156	1,852	12,321	(26,602)
Amounts due to/from primary institution	(15,128)	14,119	2,450	(14,119)	(12,678)	-
Deferred outflows	(315,850)	(456,724)	(31)	(84)	(315,881)	(456,808)
Accounts payable and accrued liabilities	57,049	49,653	1,154	3,603	58,203	53,256
Self-insurance accruals	(13,377)	(13,258)	-	-	(13,377)	(13,258)
Amounts due to third-party payers - Health System	(4,713)	(1,423)	-	-	(4,713)	(1,423)
Deposits and advance payments	2,932	(26,218)	(21,606)	22,385	(18,674)	(3,833)
Compensated absences	4,720	7,990	-	-	4,720	7,990
Refundable advances for Federal Perkins loans	(396)	(118)	-	-	(396)	(118)
Net pension liability	770,736	664,194	16	70	770,752	664,264
Deferred inflows	(115,659)	(105,897)	2	2	(115,657)	(105,895)
Other liabilities	(4,603)	35,192	21,182	1,659	16,579	36,851
Net cash provided (used) by operating activities	$ (100,589)	$ (174,888)	$ 67,876	$ 58,575	$ (41,563)	$ (107,539)
Non Cash Transactions:						
Construction in Process in Accounts Payable	$ 17,442	$ 30,355	$ 3,885	-	$ 21,327	$ 30,355
Stock Gifts	21,723	20,746	-	-	21,723	20,746
Net Increase (Decrease) in Fair Value of Investments	477,006	(105,312)	-	-	477,006	(105,312)

The accompanying notes are an integral part of these financial statements.

Notes to Financial Statements | Years Ended June 30, 2017 and 2016 (dollars in thousands)

NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES

Organization

The Ohio State University (the "university") is a land grant institution created in 1870 by the Ohio General Assembly under provisions of the Morrill Act. The university is one of several state-supported universities in Ohio. It is declared by statute to be a body politic and corporate and an instrumentality of the State.

The university is governed by a Board of Trustees which is granted authority under Ohio law to do all things necessary for the proper maintenance and continual successful operation of the university. Trustees are appointed by the governor, with the advice and consent of the state Senate. In 2005, the Ohio General Assembly voted to expand the Board from 11 to 17 members. The standard term for voting members of the Board is nine years. However, as part of the transition to a larger board membership, the additional trustees appointed in 2005 and 2006 will serve terms ranging from four to eight years. The Board also includes two nonvoting student trustees who are appointed to two-year terms.

In 2009, the Board appointed its first charter trustee, which expanded the Board to 18 members. A maximum of three charter trustees may be appointed and removed by a vote of the Board. Charter trustees, who must be non-Ohio residents, are appointed to three-year terms and do not have voting privileges.

The Board of Trustees has responsibility for all the university's financial affairs and assets. The university operates largely on a decentralized basis by delegating this authority to its academic and support departments. The Board must approve the annual budgets for unrestricted academic and support functions, departmental earnings operations and restricted funds operations, but these budgets are managed at the department level.

Basis of Presentation

The accompanying financial statements present the accounts of the following entities, which constitute the primary government for financial reporting purposes:

- The Ohio State University and its hospitals and clinics
- Ohio Agricultural Research and Development Center
- The Ohio Technology Consortium (OH-TECH)

In addition, these financial statements include component units – legally separate organizations for which the university is financially accountable. Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, as amended by Statement No. 61, *The Financial Reporting Entity: Omnibus* and Statement No. 80, *Blending Requirements for Certain Component Units – an amendment of GASB Statement No. 14.*, defines financial accountability. The criteria for determining financial accountability include the following circumstances:

- Appointment of a voting majority of an organization's governing authority and the ability of the primary government (i.e. the university) to either impose its will on that organization or the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government, or;
- An organization is fiscally dependent on the primary government and provides specific financial benefits to, or imposes specific financial burdens on, the primary government.

The university's component units and the reasons for their inclusion in the university's financial statements are described below:

- **The Ohio State University Foundation** – The fiscal dependency criteria apply to this not-for-profit fundraising organization, which operates exclusively for the benefit of The Ohio State University.
- **OSU Health Plan, Inc.** – The university appoints a voting majority of the board for this organization, which provides medical benefit plan administration services to the university and its faculty and staff.
- **Oval Limited** – The university holds all of the voting stock of this captive insurance entity, which was established by the university to provide medical malpractice coverage to physicians in the university's medical center.

The component units listed above provide services entirely, or almost entirely, to the university or otherwise exclusively, or almost exclusively, benefit the university. Therefore, the transactions and balances for these organizations have been blended with those of the university.

In addition to the blended component units described above, the university's financial statements include the following discretely presented component units:

- **The Ohio State University Physicians, Inc.** – The university appoints a voting majority of the board of the medical practice group for physician faculty members in the Colleges of Medicine and Public Health.

- **Campus Partners for Community Urban Redevelopment, Inc.** – This nonprofit organization, which participates in the redevelopment of neighborhoods adjacent to the Columbus campus, is fiscally dependent on the university.
- **Transportation Research Center of Ohio, Inc.** – The university appoints a voting majority of the board for this automotive research and testing facility in East Liberty, Ohio.
- **Dental Faculty Practice Association, Inc.** – The university appoints a voting majority of the board for the dental practice group for faculty in the College of Dentistry.

Summary financial statement information for the university's blended and discretely presented component units is provided in Notes 19 and 20. Audited financial statements for the discretely presented component units considered to be material to the university may be obtained from the Office of the Controller. A total university column in the financial statements is provided as memorandum only for purposes of additional analysis by users. The total university column reflects eliminations of transactions between the primary institution and the discretely component units. These transactions consist primarily of (a) discretionary subsidies and contributions which are presented as either non-operating activities or capital additions at the component unit level and (b) exchanged-based goods and services that support the operations of the entity, which are presented as operating revenues and expenses at the component unit level. The impact of these transactions on the statement of revenues, expenses and other changes in net position was $8,850 and $3,709 for the years ended June 30, 2017 and 2016, respectively.

The university, as a component unit of the State of Ohio, is included as a discrete entity in the State of Ohio's Comprehensive Annual Financial Report.

Basis of Accounting

The financial statements of the university have been prepared in accordance with accounting principles generally accepted in the United States of America, as prescribed by the GASB. The university is reporting as a special purpose government engaged in business type activities (BTA) on the accrual basis. Business type activities are those that are financed in whole or in part by fees charged to external parties for goods and services. In accordance with BTA reporting, the university presents Management's Discussion and Analysis; Statements of Net Position; Statements of Revenues, Expenses and Other Changes in Net Position; Statements of Cash Flows; and Notes to the Financial Statements. In the Financial Statements, separate columns are presented for the *primary institution* (which includes the primary government and the blended component units), *discretely presented component units* and the *total university*. The Notes to the Financial Statements include separate disclosures for the primary institution and the discretely presented component units, where relevant and material. Unless otherwise specified, the amounts presented in MD&A are those of the primary institution.

The university's financial resources are classified for accounting and reporting purposes into the following four net position categories:

- **Net investment in capital assets:** Capital assets, net of accumulated depreciation, cash restricted for capital projects and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.
- **Restricted – non-expendable:** Amounts subject to externally-imposed stipulations that they be maintained in perpetuity and invested for the purpose of generating present and future income, which may either be expended or added to the principal by the university. These assets primarily consist of the university's permanent endowments.
- **Restricted – expendable:** Amounts whose use is subject to externally-imposed stipulations that can be fulfilled by actions of the university pursuant to those stipulations or that expire by the passage of time.
- **Unrestricted:** Amounts which are not subject to externally-imposed stipulations. Substantially all unrestricted balances are internally designated for use by university departments to support working capital needs, to fund related academic or research programs, and to provide for unanticipated shortfalls in revenues and deviations in enrollment.

Under the university's decentralized management structure, it is the responsibility of individual departments to determine whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted funds are available.

For internal financial management purposes, the university classifies financial resources into funds that reflect the specific activities, objectives or restrictions of the resources.

Cash and Investments

Cash and cash equivalents consist primarily of petty cash, demand deposit accounts, money market accounts, savings accounts and investments with original maturities of ninety days or less at the time of purchase. Such investments consist primarily of U.S. Government obligations, U.S. Agency obligations, repurchase agreements and money market funds. Restricted cash consists of bond proceeds restricted for capital expenditures. For purposes of the Statement of Cash Flows, "cash" is defined as the total of these two line items.

Investments are carried at fair value in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, as amended by GASB Statement No. 72, *Fair Value Measurement and Application*. The average cost method is used for purposes of determining gains and losses on the sale of investments. The specific identification method is used for purposes of determining gains and losses on the sale of gifted securities.

The university holds investments in limited partnerships, private equity and other investments, which are carried at estimated fair value provided by the management of these limited partnerships. The purpose of this alternative investment class is to increase portfolio diversification and reduce risk due to the low correlation with other asset classes. Investments in these limited partnerships are fair valued based on the university's proportional share of the net asset value of the total fund. Because these investments are not readily marketable, the estimated value is subject to uncertainty and, therefore, may differ from the value that would have been used had a ready market for the investments existed, and such differences could be material. As of June 30, 2017, the university has made commitments to limited partnerships totaling $1,161,359 that have not yet been funded. These commitments may extend for a maximum of ten years.

Investment income is recognized on an accrual basis. Interest and dividend income is recorded when earned.

Endowment Policy

All endowments are invested in the university's Long Term Investment Pool, which consists of more than 5,464 Board authorized funds and 260 pending funds. Each named fund is assigned a number of shares in the Long Term Investment Pool based on the value of the gifts, income-to-principal transfers, or transfers of operating funds to that named fund. For donor restricted endowments, the Uniform Prudent Management of Institutional Funds Act (UPMIFA), as adopted in Ohio, permits the university's Board of Trustees to appropriate an amount of realized and unrealized endowment appreciation as the Board deems prudent. The UPMIFA, as adopted in Ohio, establishes a 5% safe harbor of prudence for funds appropriated for expenditure. Net realized and unrealized appreciation, after the spending rule distributions, is retained in the Long Term Investment Pool, and the associated net position is classified as restricted-expendable, unless otherwise restricted by the donor.

Annual distributions to named funds in the Long Term Investment Pool are computed using the share method of accounting for pooled investments. The annual distribution per share is 4.25% of the average fair value per share of the Long Term Investment Pool over the most recent seven year period. In 2016, the Board of Trustees approved an increase in the distribution rate to 4.5%, effective fiscal year 2017.

At June 30, 2017, the fair value of the university's gifted endowments is $1,939,582, which is $327,343 above the historical dollar value of $1,612,239. Although the fair value of the gifted endowments in total exceeds the historical cost at June 30, 2017, there are 1,347 named funds that remain underwater. The fair value of these underwater funds at June 30, 2017 is $492,695, which is $47,823 below the historical dollar value of $540,518.

At June 30, 2016, the fair value of the university's gifted endowments is $1,740,505, which is $183,572 above the historical dollar value of $1,556,933. Although the fair value of the gifted endowments in total exceeds the historical cost at June 30, 2016, there are 2,729 named funds that remain underwater. The fair value of these underwater funds at June 30, 2016 is $822,501, which is $99,527 below the historical dollar value of $922,028.

The depreciation on non-expendable endowment funds is recorded as a reduction to restricted non-expendable net position. Recovery on these funds is recorded as an increase in restricted non-expendable up to the historical value of each fund. Per UPMIFA (§ 1715.53(D)(C), the reporting of such deficiencies does not create an obligation on the part of the endowment fund to restore the fair value of those funds.

Gift Pledges Receivable

The university receives pledges and bequests of financial support from corporations, foundations and individuals. Revenue is recognized when a pledge representing an unconditional promise to pay is received and all eligibility requirements have been met. In the absence of such promise, revenue is recognized when the gift is received. In accordance with GASB Statement No. 33, *Accounting and Financial Reporting for Non-exchange Transactions*, endowment pledges are not recorded as assets until the related gift is received. An allowance for uncollectible pledges receivable is provided based on management's judgment of potential uncollectible amounts and includes such factors as prior collection history, type of gift and nature of fundraising.

Inventories

The university's inventories, which consist principally of publications, general stores and other goods for resale by earnings operations, are valued at the lower of moving average cost or market. The inventories of the Health System, which consist principally of pharmaceuticals and operating supplies, are valued at cost on a first-in, first-out basis.

Capital Assets and Collections

Capital assets are long-life assets in the service of the university and include land, buildings, improvements, equipment, software and library books. Capital assets are stated at cost or acquisition value at date of gift. Depreciation of capital assets (excluding land and construction in progress) is provided on a straight-line basis over the following estimated useful lives:

Type of Asset	Estimated Useful Life
Improvements other than buildings	20 years
Buildings	10 to 100 years
Movable equipment, software and furniture	5 to 15 years
Library books	10 years

The university does not capitalize works of art or historical treasures that are held for exhibition, education, research and public service. These collections are neither disposed of for financial gain nor encumbered in any way. Accordingly, such collections are not recognized or capitalized for financial statement purposes.

Advance Payments for Goods and Services

Advance payments for goods and services primarily consist of receipts relating to tuition, room, board, grants, contracts and athletic events received in advance of the services to be provided. Tuition and fees relating to the summer academic term are recorded as revenue in the year to which they pertain. The university will recognize revenue to the extent these services are provided over the coming fiscal year.

Derivative Instruments and Hedging Activities

The university accounts for all derivative instruments on the statement of net position at fair value. Changes in the fair value (i.e., gains or losses) of the university's interest rate swap investments and futures investments are recorded each period in the statement of revenues, expenses and other changes in net position as a component of other non-operating expense.

Operating and Non-Operating Revenues

The university defines operating activities, for purposes of reporting on the Statement of Revenues, Expenses, and Other Changes in Net Position, as those activities that generally result from exchange transactions, such as payments received for providing services and payments made for goods or services received. With the exception of interest expense on long-term indebtedness, substantially all university expenses are considered to be operating expenses. Certain significant revenue streams relied upon for operations are recorded as non-operating revenues, as defined by GASB Statement No. 35, including state appropriations, current-use gifts and net investment income.

Tuition, Room and Board

Student tuition and residence hall fees are presented net of scholarships and fellowships applied to student accounts. Stipends and other payments made directly to students are presented as scholarship and fellowship expense. Fee authorizations provided to graduate teaching, research and administrative associates as part of an employment arrangement are presented in instruction, research and other functional categories of operating expense.

State Support

The university is a state-assisted institution of higher education which receives a student enrollment-based instructional subsidy from the State of Ohio. This subsidy, which is based upon a formula devised by the Ohio Board of Regents, is determined annually and is adjusted to state resources available.

The state also provides line-item appropriations which partially support the current operations of various activities, which include clinical teaching expenditures incurred at The Ohio State University Health System and other health sciences teaching facilities, The Ohio State University Extension, the Ohio Agricultural Research and Development Center, and the Center for Labor Research.

In addition to current operating support, the State of Ohio provides the funding for and constructs major plant facilities on the university's campuses, and this funding is recorded as state capital appropriations. The funding is obtained from the issuance of revenue bonds by the Ohio Public Facilities Commission (OPFC) which, in turn, initiates the construction and subsequent lease of the facility by the Ohio Board of Regents.

Such facilities are reflected as buildings or construction in progress in the accompanying statement of net position. Neither the obligations for the revenue bonds issued by OPFC nor the annual debt service charges for principal and interest on the bonds are reflected in the university's financial statements. Debt service is funded through appropriations to the Ohio Board of Regents by the General Assembly.

These facilities are not pledged as collateral for the revenue bonds. Instead, the bonds are supported by a pledge of monies in the Higher Education Bond Service Fund and future payments to be received by such fund, which is established in the custody of the Treasurer of State.

Government Grants and Contracts

Government grants and contracts normally provide for the recovery of direct and indirect costs and are subject to audit by the appropriate government agency. Federal funds are subject to an annual OMB Uniform Guidance audit. Recovery of related indirect costs is generally recorded at fixed rates negotiated for a period of one to three years.

The university generally considers grants, contracts and non-capital appropriations to be exchange transactions. Under these arrangements, the university provides a bargained-for benefit, typically in the form of instruction, research or public service programs, either directly to the funding entity or to its constituents. The overall scope and nature of these program activities is determined by the level of funding and the requirements set forth by these resource providers.

OSU Health System Revenue

Net patient service revenue represents amounts received and the estimated realizable amounts due from patients and third-party payers for services rendered net of contractual allowances, charity care and bad debt expenses. Revenue received under third-party cost reimbursement agreements (primarily the federal Medicare and Medicaid programs) are subject to examination and retroactive adjustments by the agencies administering the programs. In the normal course of business, the Health System contests certain issues resulting from examination of prior years' reimbursement reports. The accompanying financial statements include provisions for estimated retroactive adjustments arising from such examinations and contested issues. The Health System recognizes settlements of protested adjustments or appeals upon resolution of the matters.

OSU Physicians Revenue

Net patient service revenue represents amounts received and the estimated realizable amounts due from patients and third-party payers for services rendered net of contractual allowances, charity care, self-pay discounts and bad debt expenses. OSU Physicians (OSUP), a discretely presented component unit of the university, provides care to patients under various reimbursable agreements, including governmental and commercial payers (third party payers). These arrangements provide for payment for covered services at agreed-upon rates and under certain fee schedules and various discounts from charges. Provisions have been made in the financial statements for estimated contractual adjustments, representing the difference between the customary charges for services rendered and related reimbursements, and for administrative adjustments.

Charity Care and Community Benefit

Care is provided to patients regardless of their ability to pay. A patient is classified as charity care in accordance with policies established by the OSU Health System and OSUP. Because collection of amounts determined to qualify as charity care are not pursued, such amounts are written off and not reported as gross patient service revenue. OSU Health System and OSUP maintain records to identify and monitor the level of charity care provided, including the amount of charges foregone for services rendered. Net charity care costs for the OSU Health System for the years ended June 30, 2017 and 2016 are $42,710 and $36,020, respectively, after applying an additional expense of $12,416 and $12,380, respectively, for support received under the Health Care Assurance Program (HCAP). HCAP is administered by the State of Ohio to help hospitals cover a portion of the cost of providing charity care. Charity care costs for OSUP for the years ended June 30, 2017 and 2016 are $9,362 and $6,022, respectively.

Management Estimates

The preparation of financial statements in conformity with accounting principles, generally accepted in the United States of America, requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenditures during the reporting period. Disclosure of contingent assets and liabilities at the date of the financial statements may also be affected. Actual results could differ from those estimates.

Implementation of GASB Statement No. 72

In fiscal year 2016, the university implemented GASB Statement No. 72, *Fair Value Measurement and Application*. GASB Statement No. 72 expands the guidance on valuation of university investments and requires new disclosures of fair value measurements grouped by level and allows Net Asset Value (NAV) to be used for valuation of certain investments. In addition, the new standard requires additional disclosures related to investments valued at NAV, including information on unfunded commitments and a general description of redemption terms and related restrictions. These disclosures are provided in Note 3.

Newly Issued Accounting Pronouncements

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This standard, which is the companion to Statement 74, establishes new reporting requirements for employers participating in OPEB plans. Similar to Statement 68, it will require employers in cost-sharing, multi-employer plans to record a liability (and related deferrals) for the employer's pro-rata share of net OPEB liabilities. It also expands disclosure and supplementary reporting requirements for employers participating in OPEB plans. The standard is effective for periods beginning after June 15, 2017 (FY2018).

In March 2016, the GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements*. This standard requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. It also requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. In general, revenue recognition related to these agreements will be delayed until a specified event occurs (such as the death of the lead beneficiary). This standard is effective for periods beginning after December 15, 2016 (FY2018).

In November 2016, the GASB issued Statement No. 83, *Certain Asset Retirement Obligations*. This standard establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for asset retirement obligations. The deferred outflow is recognized as expense over the life of the related asset. The determination of when the liability is incurred is based on the existence of external laws, regulations, contracts, or court judgments, together with the occurrence of an internal event that obligates a government to perform asset retirement activities. Internal obligating events include the occurrence of contamination, placing into use a tangible capital asset that is required to be retired, abandoning a tangible capital asset before use begins, or acquiring a tangible capital asset that has an existing asset retirement obligation. This standard is effective for periods beginning after June 15, 2018 (FY2019).

In January 2017, the GASB issued Statement No. 84, *Fiduciary Activities*. This standard establishes criteria for identifying and reporting fiduciary activities of all state and local governments. The focus of the criteria generally is whether a government is controlling the assets of the fiduciary activity and the beneficiaries with whom a fiduciary relationship exists. Governments with activities meeting the criteria are required to present these activities in a statement of fiduciary net position and a statement of changes in fiduciary net position. An exception to this requirement is provided for a business-type activity that expects to hold assets in a custodial fund for three months or less. This standard is effective for periods beginning after December 15, 2018 (FY2020).

In March 2017, the GASB issued Statement No. 85, *Omnibus 2017*. This standard addresses a variety of practice issues identified during implementation and application of certain GASB statements. It provides guidance on blending of component units (confirming limited applicability of blended presentation for BTAs), accounting for goodwill acquired prior to the issuance of GASB 69, accounting for real estate held for investment by insurance entities, clarification of circumstances in which money-market investments may be valued at amortized cost, and various technical corrections related to the implementation of the new OPEB standards. This standard is effective for periods beginning after June 15, 2017 (FY2018).

In May 2017, the GASB issued Statement No. 86, *Certain Debt Extinguishment Issues*. This standard provides guidance on in-substance defeasance of debt, in which a government uses its existing resources (not the proceeds of refunding debt) to establish an irrevocable trust for the sole purpose of extinguishing debt. The accounting, reporting and disclosures for defeasance transactions, including reporting of gains and losses, generally will be consistent, regardless of the source of the funds used to defease the debt. This standard is effective for periods beginning after June 15, 2017 (FY2018).

In June 2017, the GASB issued Statement No. 87, *Leases*. This standard establishes accounting and reporting for leases, based on the foundational principle that all leases are financings of the right to use an underlying asset for a period of time. Lessees will record an intangible right-of-use asset and corresponding lease liability. Lessors will record a lease receivable and a corresponding deferred inflow of resources. The standard provides an exception for short-term leases with a maximum possible term of 12 months or less. This standard is effective for periods beginning after December 15, 2019 (FY2021).

University management is currently assessing the impact that implementation of GASB Statements No. 75, 81, 83, 84, 85, 86 and 87 will have on the university's financial statements.

Other

The university is exempt from income taxes as an instrumentality of the State of Ohio under Internal Revenue Code §115 and Internal Revenue Service regulations. Any unrelated business income is taxable.

NOTE 2 — CASH AND CASH EQUIVALENTS

At June 30, 2017, the carrying amount of the primary institution's cash, cash equivalents and restricted cash is $1,250,960 as compared to bank balances of $1,265,022. The differences in carrying amount and bank balances are caused by outstanding checks and deposits in transit. Of the bank balances, $53,569 is covered by federal deposit insurance and $1,211,453 is uninsured but collateralized by pools of securities pledged by the depository banks and held in the name of the respective banks.

At June 30, 2016, the carrying amount of the primary institution's cash, cash equivalents and restricted cash is $1,265,782 as compared to bank balances of $1,324,013. The differences in carrying amount and bank balances are caused by outstanding checks and deposits in transit. Of the bank balances, $53,280 is covered by federal deposit insurance and $1,270,733 is uninsured but collateralized by pools of securities pledged by the depository banks and held in the name of the respective banks.

At June 30, 2017, the carrying amount of the discretely presented component units' cash, cash equivalents and restricted cash is $125,725 as compared to bank balances of $122,850. The differences in carrying amount and bank balances are caused by outstanding checks and deposits in transit. Of the bank balances, $5,121 is covered by federal deposit insurance and $117,729 is uninsured but collateralized by pools of securities pledged by the depository banks and held in the name of the respective banks.

At June 30, 2016, the carrying amount of the discretely presented component units' cash, cash equivalents and restricted cash is $87,001 as compared to bank balances of $79,794. The differences in carrying amount and bank balances are caused by outstanding checks and deposits in transit. Of the bank balances, $4,911 is covered by federal deposit insurance and $74,883 is uninsured but collateralized by pools of securities pledged by the depository banks and held in the name of the respective banks.

NOTE 3 — INVESTMENTS

University investments are grouped into three major categories for financial reporting purposes: Temporary Investments, the Long-Term Investment Pool and Other Long-Term Investments.

Temporary Investments are amounts available for current operations. The target is to maximize value while protecting the liquidity of the assets. Temporary Investments include the following instruments with varying maturities: obligations of the U. S. Treasury and other federal agencies and instrumentalities, municipal and state bonds, corporate bonds, certificates of deposit, commercial paper, repurchase agreements, money market funds and mutual funds.

The Long-Term Investment Pool is a unitized investment pool consisting of gifted endowment funds of the university, gifted endowment funds of the OSU Foundation, and quasi-endowment funds which are internally designated funds that are to function as endowments. The Long-Term Investment Pool operates with a long-term investment goal of preserving and maintaining the real purchasing power of the principal while allowing for the generation of a predictable stream of annual distribution. The university's Board of Trustees approved the following thematic asset classes, allocation ranges and benchmarks for the Long-Term Investment Pool:

Asset Class	Range	Benchmark
Global Equities	40-80%	MSCI All Country World Index (ACWI)
Global Credit	10-50%	Barclays U.S. Aggregate Bond Index
Real Assets	5-20%	U.S. Consumer Price Index (CPI) + 5%

The Global Equities category includes domestic equity, international equity, emerging market equity, hedged funds and private equity. The Global Credit category includes global fixed income and relative value/macro, credit oriented managers and private credit. The Real Assets category includes real estate and infrastructure funds.

Other Long-Term Investments are non-unitized investments that relate primarily to gift arrangements between donors and the OSU Foundation. Included in this category are charitable remainder trust assets invested in mutual funds, OSU Foundation interests in unitrust, gift annuities, annuity trust and pooled income agreements, life insurance policies for which the OSU Foundation has been named owner and beneficiary, and certain real estate investments. Also included in this category are other private equity investments and investments in certain organizations that are affiliated with the OSU Health System.

U. S. Government and Agency securities are invested through trust agreements with banks who keep the securities in their safekeeping accounts at the Federal Reserve Bank in "book entry" form. The banks internally designate the securities as owned by or pledged to the university.

Common stocks, corporate bonds and money market instruments are invested through trust agreements with banks who keep the investments in their safekeeping accounts at Northern Trust and BNY Mellon in "book entry" form. The banks internally designate the securities as owned by or pledged to the university.

The cash and cash equivalents amount represents cash held in the Long-Term Investment Pool by various investment managers. Such amounts were generated by gifts received throughout the fiscal year and sales of investments in the Long-Term Investment Pool. Subsequently, the cash and cash equivalents will be used to purchase long-term investments.

Notes to Financial Statements | Years Ended June 30, 2017 and 2016 (dollars in thousands)

Total university investments by major category for the primary institution at June 30, 2017 and 2016 are as follows:

Primary Institution

	2017	2016
Temporary Investments	$ 1,645,681	$ 1,508,854
Long-Term Investment Pool:		
Gifted Endowment – University	1,062,321	977,173
Gifted Endowment – OSU Foundation	877,261	763,332
Quasi Endowment – Operating	1,299,779	1,203,959
Quasi Endowment – Designated	1,014,098	672,098
Total Long-Term Investment Pool	4,253,459	3,616,562
Securities Lending Collateral Investments	15,949	27,589
Other Long-Term Investments	143,638	132,971
Total Investments	$ 6,058,727	$ 5,285,976

Total university investments by investment type for the primary institution at June 30, 2017 are as follows:

Primary Institution

	Temporary Investments	Long-Term Investment Pool	Other Long-Term Investments	Securities Lending Collateral Investments	Total
U.S. equity	$ -	$ 214,328	$ -	$ -	$ 214,328
International equity	-	160,680	-	-	160,680
Equity mutual funds	84,674	536,226	23,810	-	644,710
U.S. government obligations	162,870	367,909	352	-	531,131
U.S. government agency obligations	130,557	-	-	-	130,557
Repurchase agreements	-	-	-	-	-
Corporate bonds and notes	1,073,319	-	-	-	1,073,319
Bond mutual funds	88,106	-	16,831	-	104,937
Foreign government bonds	30,212	-	-	-	30,212
Real assets	8,347	674,729	25,930	-	709,006
Hedge funds	-	1,399,392	-	-	1,399,392
Private equity	-	588,281	59,047		647,328
Commercial paper	46,028	-	-	-	46,028
Cash and cash equivalents	-	311,914	-	-	311,914
Other	21,568	-	17,668	-	39,236
Securities Lending Collateral Assets:					
Repurchase agreements	-	-	-	10,621	10,621
Variable rate notes	-	-	-	890	890
Commercial paper	-	-	-	1,410	1,410
Certificates of deposit	-	-	-	3,044	3,044
Cash and other adjustments	-	-	-	(16)	(16)
Total Investments	$ 1,645,681	$ 4,253,459	$ 143,638	$ 15,949	$ 6,058,727

Notes to Financial Statements | Years Ended June 30, 2017 and 2016 (dollars in thousands)

Total university investments by investment type for the primary institution at June 30, 2016 are as follows:

Primary Institution

	Temporary Investments	Long-Term Investment Pool	Other Long-Term Investments	Securities Lending Collateral Investments	Total
U.S. equity	$ -	$ 366,931	$ -	$ -	$ 366,931
International equity	-	112,199	-	-	112,199
Equity mutual funds	81,371	158,936	23,407	-	263,714
U.S. government obligations	167,430	5,094	2,745	-	175,269
U.S. government agency obligations	120,992	-	-	-	120,992
Repurchase agreements	2,200	-	-	-	2,200
Corporate bonds and notes	983,399	-	214	-	983,613
Bond mutual funds	83,697	-	17,801	-	101,498
Foreign government bonds	6,819	-	-	-	6,819
Real assets	10,184	644,415	16,705	-	671,304
Hedge funds	-	1,444,636	-	-	1,444,636
Private equity	-	514,100	56,409		570,509
Commercial paper	40,746	-	-	-	40,746
Cash and cash equivalents	-	370,251	-	-	370,251
Other	12,016	-	15,690	-	27,706
Securities Lending Collateral Assets:					
Repurchase agreements	-	-	-	7,317	7,317
Variable rate notes	-	-	-	17,774	17,774
Commercial paper	-	-	-	521	521
Certificates of deposit	-	-	-	-	-
Cash and other adjustments	-	-	-	1,977	1,977
Total Investments	$ 1,508,854	$ 3,616,562	$ 132,971	$ 27,589	$ 5,285,976

The components of the net investment income for the primary institution are as follows:

	Interest and Dividends	Net Increase (Decrease) in Fair Value of Investments	Net Investment Income (Loss)
Temporary Investments	$ 41,653	$ (496)	$ 41,157
Long-Term Investment Pool	78,984	472,758	551,742
Other Long-Term Investments	3,058	4,744	7,802
Total 2017	$ 123,695	$ 477,006	$ 600,701
Total 2016	$ 94,799	$ (105,312)	$ (10,513)

Information on Fair Value of Investments

Fair value is defined in the accounting standards as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Assets and liabilities reported at fair value are organized into a hierarchy based on the levels of inputs observable in the marketplace that are used to measure fair value.

Inputs are used in applying the various valuation techniques and take into account the assumptions that market participants use to make valuation decisions. Inputs may include price information, credit data, liquidity statistics, and other factors specific to the financial instrument. Observable inputs reflect market data obtained from independent sources. In contrast, unobservable inputs reflect the entity's assumptions about how market participants would value the financial instrument.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The following describes the hierarchy of inputs used to measure fair value and the primary valuation methodologies used for financial instruments measured at fair value on a recurring basis:

Level 1 – Prices based on unadjusted quoted prices in active markets that are accessible for identical assets or liabilities are classified as Level 1. Directly held equity securities, registered bond and equity mutual funds, and other miscellaneous investments classified in Level 1 are valued using prices quoted in active markets that the custodian and university have the ability to access.

Level 2 – Quoted prices in the markets that are not considered to be active, dealer quotations or alternative pricing sources for similar assets or liabilities for which all significant inputs are observable, either directly or indirectly, are classified as Level 2. Level 2 investments include US government agencies and obligations, corporate bonds, municipal bonds, foreign government bonds, repurchase agreements, commercial paper, and other debt related investments. The evaluated prices may be determined by factors which include, but are not limited to, market quotations, yields, maturities, call features, ratings, institutional size trading in similar groups of securities and developments related to specific securities.

Level 3 – Investments classified as Level 3 have significant unobservable inputs, as they trade infrequently or not at all. The inputs into the determination of fair value of these investments are based upon the best information in the circumstance and may require significant management judgment.

Investments included in Level 3 consist primarily of the university's ownership in real estate, limited partnerships and equity positions in private companies.

Net Asset Value (NAV) – Investments whose fair value is measured at NAV are excluded from the fair value hierarchy. Investments in non-governmental entities that do not have a readily determinable fair value may be valued at NAV if the NAV is determined in accordance with the fair value measurement principles provided by the FASB standards relevant to investment companies. Interest in investment funds with a NAV reported under an alternative basis are reflected as Level 3 investments. Investments measured at NAV consist mainly of non-publicly traded mutual funds, hedge funds, private equity, and other alternative funds. These assets are valued by the associated external investment manager/general partner and reviewed by the university using the most recent audited and unaudited financial statements available.

Not Leveled – Cash is not measured at fair value and, thus, is not subject to the fair value disclosure requirements. Cash not subject to such requirements amounted to $76,474 and $179,177 at June 30, 2017 and 2016, respectively.

Notes to Financial Statements | Years Ended June 30, 2017 and 2016 (dollars in thousands)

Investments by fair value category for the primary institution at June 30, 2017 are as follows:

Primary Institution

	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	NAV as Practical Expedient (NAV)	Total Fair Value
U.S. equity	$ 214,328	$ -	$ -	$ -	$ 214,328
International equity	160,680	-	-	-	160,680
Equity mutual funds	164,075	-	-	480,635	644,710
U.S. government obligations	(138)	531,269	-	-	531,131
U.S. government agency obligations	-	130,557	-	-	130,557
Corporate bonds and notes	-	1,072,324	995	-	1,073,319
Bond mutual funds	104,937	-	-	-	104,937
Foreign government bonds	-	30,212	-	-	30,212
Real assets	18,592	-	141,757	548,657	709,006
Hedge funds	-	-	-	1,399,392	1,399,392
Private equity	-	-	41,084	606,244	647,328
Commercial paper	-	46,028	-	-	46,028
Cash and cash equivalents	235,440	-	-	-	235,440
Other	-	21,237	17,999	-	39,236
Securities Lending Collateral Assets:					
Repurchase agreements	-	10,621	-	-	10,621
Variable rate notes	-	890	-	-	890
Commercial paper	-	1,410	-	-	1,410
Certificates of deposit	-	3,044	-	-	3,044
Other adjustments	-	(16)	-	-	(16)
Total Investments	$ 897,914	$ 1,847,576	$ 201,835	$ 3,034,928	$ 5,982,253
Securities not leveled in investment portfolio:					
Cash	$ 76,474	$ -	$ -	$ -	$ 76,474

Notes to Financial Statements | Years Ended June 30, 2017 and 2016 (dollars in thousands)

Investments by fair value category for the primary institution at June 30, 2016 are as follows:

Primary Institution

	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	NAV as Practical Expedient (NAV)	Total Fair Value
U.S. equity	$ 366,931	$ -	$ -	$ -	$ 366,931
International equity	112,199	-	-	-	112,199
Equity mutual funds	104,779	-	-	158,935	263,714
U.S. government obligations	-	175,269	-	-	175,269
U.S. government agency obligations	-	120,992	-	-	120,992
Repurchase agreements	-	2,200	-	-	2,200
Corporate bonds and notes	-	980,094	3,519	-	983,613
Bond mutual funds	101,498	-	-	-	101,498
Foreign government bonds	-	6,819	-	-	6,819
Real assets	15,182	-	125,357	530,765	671,304
Hedge funds	-	-	-	1,444,636	1,444,636
Private equity	-	-	23,806	546,703	570,509
Commercial paper	-	40,746	-	-	40,746
Cash and cash equivalents	191,074	-	-	-	191,074
Other	-	11,685	16,021	-	27,706
Securities Lending Collateral Assets:					
Repurchase agreements	-	7,317	-	-	7,317
Variable rate notes	-	17,199	575	-	17,774
Commercial paper	-	521	-	-	521
Certificates of deposit	-	-	-	-	-
Other adjustments	-	1,977	-	-	1,977
Total Investments	$ 891,663	$ 1,364,819	$ 169,278	$ 2,681,039	$ 5,106,799
Securities not leveled in investment portfolio:					
Cash	$ 179,177	$ -	$ -	$ -	$ 179,177

Additional Information on Investments Measured at the NAV

Additional information on fair values, unfunded commitments, remaining life and redemption for investments measured at the NAV for the primary institution at June 30, 2017 is as follows:

	Fair Value	Unfunded Commitments	Remaining Life	Redemption Notice Period	Redemption Restrictions
Equity mutual funds – non-public international	$ 480,635	$ -	No limit	1 to 30 days	None
Hedge funds – absolute return, credit, long/short equities	1,399,392	-	No limit	30 to 90 day notice periods	Lock-up provisions ranging from none to 2 years; side pockets on a few funds
Private equity – private credit, buyouts, venture, secondary	606,244	648,769	1-10 years	Partnerships ineligible for redemption	Not redeemable
Real assets – natural resources, real estate, infrastructure	548,657	224,711	1-10 years	Partnerships ineligible for redemption	Not redeemable
	$ 3,034,928	$ 873,480			

Notes to Financial Statements | Years Ended June 30, 2017 and 2016 (dollars in thousands)

Additional Risk Disclosures for Investments

GASB Statements No. 3 and 40 require certain additional disclosures related to the liquidity, interest-rate, custodial, credit and foreign currency risks associated with deposits and investments.

Liquidity risk – The university's private equity and real asset investments are illiquid and subject to redemption restrictions in accordance with their respective governing documents. Such governing documents do not provide for the university to exit these investments until their respective terms have ended.

Interest-rate risk – Interest-rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments with interest rates that are fixed for longer periods are likely to be subject to more variability in their fair values as a result of future changes in interest rates.

Custodial credit risk – Custodial credit risk is the risk that, in the event of the failure of the custodian, university investments may not be recovered. It is the policy of the university to hold investments in custodial accounts, and the securities are registered solely in the name of the university. All investments are transacted with nationally reputable brokerage firms offering protection by the Securities Investor Protection Corporation.

Credit risk – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations to the holder of the investment. Credit quality information – as commonly expressed in terms of the credit ratings issued by nationally recognized statistical rating

The maturities of the university's interest-bearing investments for the primary institution at June 30, 2017 are as follows:

Primary Institution

		Investment Maturities (in years)			
	Fair Value	Less than 1	1 to 5	6 to 10	More than 10
U.S. government obligations	$ 531,131	$ 395,780	$ 107,902	$ 27,449	$ -
U.S. government agency obligations	130,557	12,681	55,288	16,468	46,120
Commercial paper	46,028	46,028	-	-	-
Corporate bonds	1,073,319	301,723	661,802	55,156	54,638
Bond mutual funds	104,937	4,862	58,284	28,182	13,609
Other governmental bonds	21,237	4,803	13,216	175	3,043
Foreign governmental bonds	30,212	22,666	7,546	-	-
Securities Lending Collateral:					
Repurchase agreements	10,621	10,621	-	-	-
Certificates of deposit	3,044	3,044	-	-	-
Commercial paper	1,410	1,410	-	-	-
Variable rate notes	890	890	-	-	-
Total	$ 1,953,386	$ 804,508	$ 904,038	$ 127,430	$ 117,410

The maturities of the university's interest-bearing investments for the primary institution at June 30, 2016 are as follows:

Primary Institution

		Investment Maturities (in years)			
	Fair Value	Less than 1	1 to 5	6 to 10	More than 10
U.S. government obligations	$ 175,269	$ 18,829	$ 157,613	$ (1,173)	$ -
U.S. government agency obligations	120,992	14,980	62,941	17,088	25,983
Repurchase agreements	2,200	2,200	-	-	-
Commercial paper	40,746	40,746	-	-	-
Corporate bonds	983,613	270,225	634,723	35,072	43,593
Bond mutual funds	101,498	(1,011)	66,138	27,106	9,265
Other governmental bonds	11,685	3,237	7,739	-	709
Foreign governmental bonds	6,819	1,726	5,093	-	-
Securities Lending Collateral:					
Repurchase agreements	7,317	7,317	-	-	-
Commercial paper	521	521	-	-	-
Variable rate notes	17,774	17,774	-	-	-
Total	$ 1,468,434	$ 376,544	$ 934,247	$ 78,093	$ 79,550

Notes to Financial Statements | Years Ended June 30, 2017 and 2016 (dollars in thousands)

organizations such as Moody's Investors Service, Standard & Poor's, or Fitch Ratings – provides a current depiction of potential variable cash flows and credit risk.

Per GASB Statement No. 40, *Deposit and Investment Risk Disclosures, an amendment to GASB Statement No. 3*, securities with split ratings, or a different rating assignment, are disclosed using the rating indicative of the greatest degree of risk.

The credit ratings of the university's interest-bearing investments for the primary institution at June 30, 2017 are as follows:

Primary Institution

	Total	AAA	AA	A	BBB	BB	B	CCC	CC	C	Not Rated
U.S. government and agency obligations	$ 661,688	$ 4,828	$ 615,608	$ 33,253	$ -	$ -	$ -	$ -	$ -	$ -	$ 7,999
Corporate bonds	1,073,319	74,388	187,093	367,603	328,182	19,966	5,249	-	-	-	90,838
Bond mutual funds	104,937	69,995	5,424	18,060	8,080	1,474	619	1,272	-	-	13
Foreign governmental bonds	30,212	3,080	2,126	12,724	2,043	-	-	-	-	-	10,239
Commercial paper	46,028	-	-	10,949	-	-	-	-	-	-	35,079
Other governmental bonds	21,237	1,325	9,964	5,259	3,688	-	-	-	-	-	1,001
Securities Lending Collateral:											
Repurchase agreements	10,621	-	-	-	-	-	-	-	-	-	10,621
Certificates of deposit	3,044	-	-	2,627	-	-	-	-	-	-	417
Commercial paper	1,410	-	-	1,410	-	-	-	-	-	-	-
Variable rate notes	890	-	633	257	-	-	-	-	-	-	-
Total	$ 1,953,386	$ 153,616	$820,848	$ 452,142	$ 341,993	$ 21,440	$ 5,868	$ 1,272	$ -	$ -	$ 156,207

The credit ratings of the university's interest-bearing investments for the primary institution at June 30, 2016 are as follows:

Primary Institution

	Total	AAA	AA	A	BBB	BB	B	CCC	CC	C	Not Rated
U.S. government and agency obligations	$ 296,261	$ 289	$ 292,392	$ 2,518	$ -	$ -	$ -	$ -	$ -	$ -	$ 1,062
Repurchase agreements	2,200	-	-	-	-	-	-	-	-	-	2,200
Corporate bonds	983,613	61,182	211,662	359,356	291,321	22,258	8,313	238	-	-	29,283
Bond mutual funds	101,498	62,906	7,385	16,059	12,540	870	281	1	-	1,320	136
Foreign governmental bonds	6,819	2,322	2,731	-	1,255	-	-	-	-	-	511
Commercial paper	40,746	-	-	-	-	-	-	-	-	-	40,746
Other governmental bonds	11,685	-	4,726	5,235	275	-	1,004	-	-	-	445
Securities Lending Collateral:											
Repurchase agreements	7,317	-	-	-	-	-	-	-	-	-	7,317
Certificates of deposit	-	-	-	-	-	-	-	-	-	-	-
Commercial paper	521	521	-	-	-	-	-	-	-	-	-
Variable rate notes	17,774	2,015	6,029	9,730	-	-	-	-	-	-	-
Total	$ 1,468,434	$ 129,235	$524,925	$ 392,898	$ 305,391	$ 23,128	$ 9,598	$ 239	$ -	$ 1,320	$ 81,700

Notes to Financial Statements | Years Ended June 30, 2017 and 2016 (dollars in thousands)

Concentration of credit risk – Concentration of credit risk is the risk associated with a lack of diversification, such as having substantial investments in a few individual issuers, thereby exposing the university to greater risks resulting from adverse economic, political, regulatory, geographic or credit developments.

There is no investment in issuers other than U. S. government guaranteed securities that represents five percent or more of investments held at June 30, 2017 and June 30, 2016.

Foreign currency risk – Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or deposit.

At June 30, 2017, exposure to foreign currency risk for the primary institution is as follows:

Primary Institution

	Common Stock	Equity Mutual Funds	Bond Mutual Funds	Corporate Bonds and Notes	Foreign Government Bonds	Partnerships and Hedge Funds
Australian dollar	$ 1,557	$ 12,026	$ 486	$ -	$ -	$ 4,054
Bangladeshi taka	-	544	-	-	-	-
Brazilian real	2,473	7,196	183	-	-	-
Canadian dollar	11,022	4,644	(30)	-	-	-
Chilean peso	-1	2,256	-	-	-	-
Chinese yuan	-	2,225	3	-	-	-
Columbian peso	-	1,906	-	-	-	-
Czech Republic koruna	-	1,216	-	-	2,185	-
Danish krone	2,891	341	8	8,543	-	-
Egyptian pound	-	22	-	-	-	-
Euro	49,766	45,438	182	4,023	-	96,881
Great Britain pound sterling	27,369	66,843	114	2,638	-	30,577
Hong Kong dollar	10,858	16,146	17	-	-	-
Hungarian forint	-	56	-	-	-	-
Indian rupee	-5	4,793	139	-	-	-
Indonesian rupiah	-1	933	141	-	-	-
Israeli shekel	-	74	-	-	-	-
Japanese yen	28,717	55,177	34	-	15,099	-
Kuwaiti dinar	-	1,910	-	-	-	-
Malaysian ringgit	-	1,908	69	-	-	-
Mexican peso	(2)	4,767	274	(61)	-	-
New Taiwan dollar	(8)	6,438	(174)	-	-	-
New Turkish lira	-	2,535	232	-	-	-
New Zealand dollar	-	27	(289)	-	-	-
Norwegian krone	3,505	1,745	50	-	-	-
Pakistan rupee	-	4,823	-	-	-	-
Peruvian nuevo sol	-	6	71	-	-	-
Philippine peso	-	1,348	-	-	-	-
Polish zloty	(7)	1,048	-	-	-	-
Qatarian rial	-	85	-			-
Romanian new leu	-	2,887	-	-	-	-
Russian ruble	(2)	33	146	-	-	-
Singapore dollar	-	7,978	(625)	-	-	-
South African rand	(4)	5,560	6	-	-	-
South Korean won	3,284	4,839	(183)	-	-	-
Sri Lanka rupee	-	116	-	-	-	-
Swedish krona	773	4,711	273	-	-	-
Swiss franc	18,495	15,004	(262)	-	-	13,860
Thailand bhat	-	3,232	(3)	-	-	-
UAE dirham	-	1,137	-	-	-	-
Total	$ 160,680	$ 293,973	$ 862	$ 15,143	$ 17,284	$ 145,372

Notes to Financial Statements | Years Ended June 30, 2017 and 2016 (dollars in thousands)

At June 30, 2016, exposure to foreign currency risk for the primary institution is as follows:

Primary Institution

	Common Stock	Equity Mutual Funds	Bond Mutual Funds	Corporate Bonds and Notes	Foreign Government Bonds	Partnerships and Hedge Funds
Australian dollar	$ 1,005	$ 6,759	$ (60)	$ -	$ -	$ 11,493
Bangladeshi taka	-	605	-			
Brazilian real	315	6,425	298	-	-	-
Canadian dollar	7,474	1,111	6	-	-	-
Chilean peso	-	1,520	-	-	-	-
Chinese yuan	-	342	(280)	-	-	-
Columbian peso	-	628	-	-	-	-
Czech Republic koruna	-	974	-	-	-	-
Danish krone	1,110	251	(3)	-	-	-
Egyptian pound	-	30	-	-	-	-
Euro	35,254	23,712	(456)	1,597	-	80,657
Great Britain pound sterling	22,789	36,297	(293)	190	-	19,414
Hong Kong dollar	5,104	14,562	18	-	-	-
Hungarian forint	-	38	-	-	-	-
Indian rupee	-	3,986	3	-	-	-
Indonesian rupiah	-	323	5	-	-	-
Israeli shekel	-	82	-	-	-	-
Japanese yen	19,823	26,559	(55)	-	-	-
Kuwaiti dinar		443				
Malaysian ringgit	-	1,163	-	-	-	-
Mexican peso	-	1,279	130	-	-	-
New Taiwan dollar	-	4,777	(240)	-	-	-
New Turkish lira	-	1,166	-	-	-	-
New Zealand dollar	-	39	4	-	-	-
Norwegian krone	1,529	1,130	1	-	-	-
Pakistan rupee		1,818				
Peruvian nuevo sol	-	-	-	-	-	-
Philippine peso	-	233	-	-	-	-
Polish zloty	-	559	-	-	-	-
Romanian new leu	-	1,810	-	-		-
Russian ruble	-	-	150	-	-	-
Singapore dollar	-	6,925	(483)	-	-	-
South African rand	-	5,525	3	-	-	-
South Korean won	-	4,324	(13)	-	-	-
Sri Lanka rupee	-	345	-	-	-	-
Swedish krona	1,723	1,315	222	-	-	-
Swiss franc	16,073	6,247	(218)	-	-	7,968
Thailand bhat	-	774	-	-	-	-
UAE dirham	-	107	-	-	-	-
Total	$ 112,199	$ 164,183	$ (1,261)	$ 1,787	$ -	$ 119,532

Securities Lending

The university has engaged in a securities lending program through its custodian bank of the Long-Term Investment Pool. Securities loaned at June 30, 2017 were comprised completely of equities, and these loans were secured by collateral in the form of cash, equities, U.S. government obligations, and foreign government/private debt. All loans must be secured by collateral amounting to no less than 102% of the current fair value of domestic securities loaned and no less than 105% of the current fair value of foreign securities loaned.

As of the financial statements' date, there was no credit risk on securities loaned due to the fair value of the collateral held being greater than the fair value of securities on loan to each individual broker. The university, the custodian, and the borrower each maintain the right to terminate a loan. Upon maturity or termination of a loan agreement, the custodian is contractually obligated to indemnify the university if the borrowers fail to return loaned securities and if liquidation of the collateral is insufficient to replace the value of the securities loaned. Noncash collateral cannot be pledged or sold by the university without a borrower's default. While earning fees received by the university during the loan period, cash collateral is simultaneously invested in short term, highly liquid securities in order to further increase interest earned while also matching a weighted average maturity of loans which is not to exceed 60 days.

As of June 30, 2017, securities loaned by the university amounted to a fair value of $26,267 and were secured by collateral in the amount of $27,745. The portion of this collateral that was received in cash amounted to $15,949 and is reflected within the university's statement of net position as a current asset and a corresponding current liability.

As of June 30, 2016, securities loaned by the university amounted to a fair value of $38,166 and were secured by collateral in the amount of $40,139. The portion of this collateral that was received in cash amounted to $27,589 and is reflected within the university's statement of net position as a current asset and a corresponding current liability.

Notes to Financial Statements | Years Ended June 30, 2017 and 2016 (dollars in thousands)

NOTE 4 — ACCOUNTS, NOTES AND PLEDGES RECEIVABLE

Accounts receivable for the primary institution at June 30, 2017 and 2016 consist of the following:

Primary Institution

	2017	2016
Gross patient receivables – OSU Health System	$ 1,089,251	$ 1,057,506
Grant and contract receivables	91,684	88,725
Tuition and fees receivable	20,176	19,508
Receivables for departmental and auxiliary sales and services	52,415	47,934
State and federal receivables	9,239	7,223
Other receivables	9,440	409
Total receivables	1,272,205	1,221,305
Less: Allowances	696,330	708,674
Total receivables, net	$ 575,875	$ 512,631

Allowances consist primarily of allowances for doubtful accounts and contractual adjustments of patient receivables of the OSU Health System.

Notes receivable consist primarily of Perkins and health professions loans and are net of an allowance for doubtful accounts of $18,445 and $17,500 at June 30, 2017 and 2016, respectively. Federal capital contributions to the Perkins loan programs represent advances which are ultimately refundable to the federal government.

In accordance with GASB Statement No. 33, *Accounting and Reporting for Non-exchange Transactions*, the university has recorded $110,849 in non-endowment pledges receivable and a related allowance for doubtful accounts of $4,781 at June 30, 2017. The university recorded $105,671 in non-endowment pledges receivable and a related allowance for doubtful accounts of $4,804 at June 30, 2016.

Accounts receivable for the discretely presented component units at June 30, 2017 and 2016 consist of the following:

Discretely Presented Component Units

	2017	2016
Gross patient receivables – OSU Physicians	$ 101,787	$ 116,489
Other receivables	13,234	14,693
Total receivables	115,021	131,182
Less: Allowances for doubtful accounts	67,285	78,467
Total receivables, net	$ 47,736	$ 52,715

Allowances consist primarily of allowances for doubtful accounts and contractual adjustments of patient receivables of OSU Physicians.

Notes to Financial Statements | Years Ended June 30, 2017 and 2016 (dollars in thousands)

NOTE 5 — CAPITAL ASSETS

Capital assets activity for the primary institution for the year ended June 30, 2017 is summarized as follows:

Primary Institution

	Beginning Balance	Additions	Retirements	Ending Balance
Capital assets not being depreciated:				
Land	$ 85,335	$ 3,474	$ 307	$ 88,502
Intangibles	18,413	-	-	18,413
Construction in progress	103,555	63,155	-	166,710
Total non-depreciable assets	207,303	66,629	307	273,625
Capital assets being depreciated:				
Improvements other than buildings	812,055	16,374	-	828,429
Buildings and fixed equipment	6 ,039,509	183,276	8,246	6,214,539
Movable equipment, furniture and software	1,374,200	138,473	59,928	1,452,745
Library books	183,389	5,109	492	188,006
Total	8,409,153	343,232	68,666	8,683,719
Less: Accumulated depreciation	3,764,023	374,615	64,878	4,073,760
Total depreciable assets, net	4,645,130	(31,383)	3,788	4,609,959
Capital assets, net	$ 4,852,433	$ 35,246	$ 4,095	$ 4 ,883,584

The increase in construction in progress of $63,155 in fiscal year 2017 represents the amount of capital expenditures for new projects of $318,555, net of assets placed in service of $255,400.

Capital assets activity for the primary institution for the year ended June 30, 2016 is summarized as follows:

Primary Institution

	Beginning Balance	Additions	Retirements	Ending Balance
Capital assets not being depreciated:				
Land	$ 86,915	$ 3,319	$ 4,899	$ 85,335
Intangibles	18,413	-	-	18,413
Construction in progress	332,346	(228,791)	-	103,555
Total non-depreciable assets	437,674	(225,472)	4,899	207,303
Capital assets being depreciated:				
Improvements other than buildings	730,346	81,709	-	812,055
Buildings and fixed equipment	5,607,541	441,277	9,309	6,039,509
Movable equipment, furniture and software	1,300,468	109,169	35,437	1,374,200
Library books	177,753	6,165	529	183,389
Total	7,816,108	638,320	45,275	8,409,153
Less: Accumulated depreciation	3,450,540	351,901	38,418	3,764,023
Total depreciable assets, net	4,365,568	286,419	6,857	4,645,130
Capital assets, net	$ 4,803,242	$ 60,947	$ 11,756	$ 4,852,433

The decrease in construction in progress of $228,791 in fiscal year 2016 represents the amount of capital expenditures for new projects of $349,456, net of assets placed in service of $578,247.

Notes to Financial Statements | Years Ended June 30, 2017 and 2016 (dollars in thousands)

Capital assets activity for the discretely presented component units for the year ended June 30, 2017 is summarized as follows:

Discretely Presented Component Units

	Beginning Balance	Additions	Retirements	Ending Balance
Capital assets not being depreciated:				
Land	$ 21,122	$ 6,354	$ 1,745	$ 25,731
Intangibles	-	52	-	52
Construction in progress	25,491	(10,325)	-	15,166
Total non-depreciable assets	46,613	(3,919)	1,745	40,949
Capital assets being depreciated:				
Improvements other than buildings	8,510	5,663	750	13,423
Buildings and fixed equipment	72,366	41,622	11,622	102,366
Movable equipment, furniture and software	50,281	2,611	22,318	30,574
Library books	-	-	-	-
Total	131,157	49,896	34,690	146,363
Less: Accumulated depreciation	59,805	7,138	1,798	65,145
Total depreciable assets, net	71,352	42,758	32,892	81,218
Capital assets, net	$ 117,965	$ 38,839	$ 34,637	$ 122,167

Capital assets activity for the discretely presented component units for the year ended June 30, 2016 is summarized as follows:

Discretely Presented Component Units

	Beginning Balance	Additions	Retirements	Ending Balance
Capital assets not being depreciated:				
Land	$ 10,844	$ 20,881	$ 10,603	$ 21,122
Intangibles	-	-	-	-
Construction in progress	582	24,909	-	25,491
Total non-depreciable assets	11,426	45,790	10,603	46,613
Capital assets being depreciated:				
Improvements other than buildings	8,314	1,625	1,429	8,510
Buildings and fixed equipment	67,551	8,101	3,286	72,366
Movable equipment, furniture and software	48,398	2,662	779	50,281
Library books	-	-	-	-
Total	124,263	12,388	5,494	131,157
Less: Accumulated depreciation	55,778	6,425	2,398	59,805
Total depreciable assets, net	68,485	5,963	3,096	71,352
Capital assets, net	$ 79,911	$ 51,753	$ 13,699	$ 117,965

Notes to Financial Statements | Years Ended June 30, 2017 and 2016 (dollars in thousands)

NOTE 6 – ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses for the primary institution at June 30, 2017 and 2016 consist of the following:

	2017	2016
Payables to vendors for supplies and services	$ 303,026	$ 333,524
Accrued compensation and benefits	125,049	90,906
Retirement system contributions payable	49,572	45,118
Other accrued expenses	47,107	(332)
Total payables and accrued expenses	$ 524,754	$ 469,216

NOTE 7 – DEPOSITS AND ADVANCE PAYMENTS FOR GOODS AND SERVICES

Deposits and advance payments for goods and services for the primary institution at June 30, 2017 and 2016 consist of the following:

	2017	2016
Current deposits and advance payments:		
Tuition and fees	$ 40,002	$ 40,119
Departmental and auxiliary sales and services	64,546	75,686
Affinity agreements	5,068	7,901
Grants and contracts advances	101,307	78,329
Other deposits and advance payments	12,957	14,337
Total current deposits and advance payments	$ 223,880	$ 216,372
Other non-current deposits and advance payments	$ 73,289	$ 79,538

NOTE 8 – SELF-INSURANCE ACCRUALS

The university maintains self-insurance programs for professional medical malpractice, employee health insurance and workers' compensation. Information on each of these programs is provided below.

Medical Malpractice

The university has established trusteed self-insurance funds for professional medical malpractice liability claims with a $4,000 limit per occurrence and $18,000 annual aggregate. The university self-insurance funds have insurance in excess of $4,000 per occurrence through Oval Limited, a blended component unit of the university. Effective July 1, 2016, Oval Limited provides coverage with limits of $85,000 per occurrence and in the aggregate.

Previous coverage levels for Oval Limited are as follows:

Accident Period for Oval	Gross Oval Limit (Occurrence and Annual Aggregate)
7/1/16 – 6/30/17	$85,000
7/1/15 – 6/30/16	$75,000
7/1/08 – 6/30/15	$55,000
7/1/06 – 6/30/08	$40,000
7/1/05 – 6/30/06	$35,000
7/1/02– 6/30/05	$25,000
7/1/97 – 6/30/02	$15,000
9/30/94 – 6/30/97	$10,000

The limits are in excess of underlying policies with limits of $4,000 per occurrence and $18,000 in the aggregate. A portion of the risks written by Oval Limited to date is reinsured by four reinsurance companies. Oval Limited retains 50% of the first $15,000 of risk and cedes the remainder to Berkley Medical Excess Underwriters (rated A+ by A.M. Best). The next $20,000 is fully ceded to Lexington Insurance Company (rated A by A.M. Best). The next $20,000 is fully ceded to Endurance Specialty Insurance Ltd. (rated A by A.M. Best). Above that, Oval Limited cedes the remaining $20,000 of risk to Medical Protective (rated A++ by A.M. Best). The estimated liability and the related contributions to the trustee fund are based upon an independent actuarial determination as of June 30, 2017. OSUP participates in the university self-insurance fund for professional medical malpractice liability claims. The university's estimate of professional malpractice liability includes provisions for known claims and actuarially determined estimates of incurred but not reported claims and incidents. This liability at June 30, 2017 of the anticipated future payments on gross claims is estimated at its present value of $51,626 discounted at an estimated rate of 3.0% (university funds) and an additional $7,297 discounted at an estimated rate of 3.0% (Oval Limited).

Notes to Financial Statements | Years Ended June 30, 2017 and 2016 (dollars in thousands)

Although actual experience upon the ultimate disposition of the claims may vary from this estimate, the self-insurance fund assets of $184,849 (which primarily consist of bond and equity mutual funds, money market funds and U.S. treasury notes) are more than the recorded liability at June 30, 2017, and the surplus of $111,328 is included in unrestricted net position.

At June 30, 2016, the anticipated future payments on gross claims was estimated at its present value of $57,873 discounted at an estimated rate of 3% (university funds) and an additional $26,927 discounted at an estimated rate of 3% (Oval Limited). The self-insurance fund assets of $179,198 (which primarily consist of bond and equity mutual funds, money market funds and U.S. treasury notes) were more than the recorded liability at June 30, 2016, and the surplus of $94,398 was included in unrestricted net position.

Employee Health Insurance

The university is also self-insured for employee health insurance. As of June 30, 2017 and 2016, $35,849 and $39,096, respectively is recorded as a liability relating to both claims received but not paid and estimates of claims incurred but not yet reported.

Workers' Compensation

Effective January 1, 2013, the university became self-insured for workers' compensation. As of June 30, 2017 and 2016, respectively, $20,498 and $19,127 are recorded as a liability relating to both claims received but not paid and estimates of claims incurred but not yet reported.

Changes in reported self-insurance liabilities for the primary institution since June 30, 2015 result from the following activities:

	Malpractice		Health		Workers' Compensation	
	2017	2016	2017	2016	2017	2016
Liability at beginning of fiscal year	$ 84,800	$ 98,578	$ 39,096	$ 37,375	$ 19,127	$ 15,308
Current year provision for losses	(10,307)	(9,128)	325,339	343,904	(11,409)	(5,492)
Claim payments	(970)	(4,650)	(328,586)	(342,183)	12,780	9,311
Balance at fiscal year end	$ 73,523	$ 84,800	$ 35,849	$ 39,096	$ 20,498	$ 19,127

Notes to Financial Statements | Years Ended June 30, 2017 and 2016 (dollars in thousands)

NOTE 9 — DEBT

The university may finance the construction, renovation and acquisition of certain facilities through the issuance of debt obligations, which may include general receipts bonds, certificates of participation, commercial paper, capital lease obligations and other borrowings. Debt activity for the primary institution for the year ended June 30, 2017 is as follows:

Primary Institution

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Notes:					
WOSU	$ 2,303	$ -	$ 159	$ 2,144	$ 159
OH Air Quality Note Series A	3,438	-	407	3,031	413
OH Air Quality Note Series B	2,340	-	-	2,340	-
St. Stephens Church Note	2,802	-	73	2,729	76
General Receipts Bonds - Fixed Rate:					
2008A, due serially through 2028	110,330	-	15,820	94,510	7,340
2010A, due serially through 2020	117,190	-	38,030	79,160	38,700
2010C, due 2040	654,785	-	-	654,785	-
2010D, due serially through 2032	84,625	-	-	84,625	-
2011, due 2111	500,000	-	-	500,000	-
2012A, due 2030	82,870	-	7,890	74,980	8,230
2012B, due 2033	17,135	-	1,800	15,335	1,820
2014A, due serially through 2044	133,795	-	2,235	131,560	2,315
2016A, due serially through 2111	600,000	-	-	600,000	-
2016B, due serially through 2030	28,545	-	2,610	25,935	2,680
Special Purpose General Receipts Bonds - Fixed Rate:					
2013A, due 2043	337,955	-	-	337,955	-
General Receipts Bonds - Variable Rate:					
1997, due serially through 2027	17,160	-	-	17,160	17,160
1999B1, due serially through 2029	10,765	-	-	10,765	10,765
2001, due serially through 2032	53,035	-	-	53,035	53,035
2003C, due serially through 2031	51,975	-	2,175	49,800	49,800
2005B, due serially through 2035	71,575	-	-	71,575	71,575
2008B, due serially through 2028	91,925	-	5,900	86,025	86,025
2010E, due serially through 2035	150,000	-	-	150,000	150,000
2014B, due serially through 2044	150,000	-	-	150,000	150,000
Capital Lease Obligations	4,547	6,430	2,429	8,548	1,891
	3,279,095	6,430	79,528	3,205,997	651,984
Unamortized Bond Premiums	94,165	-	8,036	86,129	-
Total outstanding debt	$ 3,373,260	$ 6,430	$ 87,564	$ 3,292,126	$ 651,984

Notes to Financial Statements | Years Ended June 30, 2017 and 2016 (dollars in thousands)

Debt activity for the primary institution for the year ended June 30, 2016 is as follows:

Primary Institution

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Notes:					
WOSU	$ 2,462	$ -	$ 159	$ 2,303	$ 159
OH Air Quality Note Series A	3,839	-	401	3,438	407
OH Air Quality Note Series B	2,340	-	-	2,340	-
St. Stephens Church Note	2,871	-	69	2,802	73
General Receipts Bonds - Fixed Rate:					
2005A, due serially through 2035	36,040	-	36,040	-	-
2008A, due serially through 2028	124,165	-	13,835	110,330	7,070
2010A, due serially through 2020	146,040	-	28,850	117,190	38,030
2010C, due 2040	654,785	-	-	654,785	-
2010D, due serially through 2032	84,625	-	-	84,625	-
2011, due 2111	500,000	-	-	500,000	-
2012A, due 2030	90,500	-	7,630	82,870	7,890
2012B, due 2033	18,920	-	1,785	17,135	1,800
2014A, due serially through 2044	135,985	-	2,190	133,795	2,235
2016A, due serially through 2111	-	600,000	-	600,000	-
2016B, due serially through 2030	-	30,875	2,330	28,545	2,610
Special Purpose General Receipts Bonds - Fixed Rate:					
2013A, due 2043	337,955	-	-	337,955	-
General Receipts Bonds - Variable Rate:					
1997, due serially through 2027	17,160	-	-	17,160	17,160
1999B1, due serially through 2029	10,765	-	-	10,765	10,765
2001, due serially through 2032	53,035	-	-	53,035	53,035
2003C, due serially through 2031	51,975	-	-	51,975	51,975
2005B, due serially through 2035	71,575	-	-	71,575	71,575
2008B, due serially through 2028	91,925	-	-	91,925	91,925
2010E, due serially through 2035	150,000	-	-	150,000	150,000
2014B, due serially through 2044	150,000	-	-	150,000	150,000
Capital Lease Obligations	6,389	-	1,842	4,547	1,709
	2,743,351	630,875	95,131	3,279,095	658,418
Unamortized Bond Premiums	98,658	4,745	9,238	94,165	-
Total outstanding debt	$ 2,842,009	$ 635,620	$ 104,369	$ 3,373,260	$ 658,418

Notes to Financial Statements | Years Ended June 30, 2017 and 2016 (dollars in thousands)

Debt activity for the discretely presented component units for the year ended June 30, 2017 is as follows:

Discretely Presented Component Units

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Notes:					
OSU Physicians – Series 2013 Health Care Facilities Revenue Bond, due through 2035	$ 13,659	$ -	$ 635	$ 13,024	$ 601
OSU Physicians – Term Loan Payable, due 2023	1,887	-	273	1,614	261
Campus Partners – Columbus Foundation Note Payable	-	1,979	83	1,896	84
Campus Partners – Edwards TIF Note Payable	-	150	-	150	-
Capital Lease Obligations	-	-	-	-	-
Total outstanding debt	$ 15,546	$ 2,129	$ 991	$ 16,684	$ 946

Debt activity for the discretely presented component units for the year ended June 30, 2016 is as follows:

Discretely Presented Component Units

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Notes:					
OSU Physicians – Series 2013 Health Care Facilities Revenue Bond, due through 2035	$ 14,228	$ -	$ 569	$ 13,659	$ 811
OSU Physicians – Term Loan Payable, due 2023	2,136	-	249	1,887	-
Capital Lease Obligations	5	-	5	-	-
Total outstanding debt	$ 16,369	$ -	$ 823	$ 15,546	$ 811

Notes to Financial Statements | Years Ended June 30, 2017 and 2016 (dollars in thousands)

Debt obligations are generally callable by the university, bear interest at fixed and variable rates ranging from 0% to 6% and mature at various dates through 2111. Maturities and interest on debt obligations for the next five years and in five-year periods for the primary institution are as follows:

Primary Institution

	Principal	Interest	Total
2018	$ 651,984	$ 133,483	$ 785,467
2019	49,455	126,190	175,645
2020	36,441	124,307	160,748
2021	34,969	122,654	157,623
2022	36,060	121,084	157,144
2023-2027	191,588	578,941	770,529
2028-2032	150,524	539,178	689,702
2033-2037	103,653	511,595	615,248
2038-2042	790,153	398,346	1,188,499
2043-2047	411,170	235,203	646,373
2048-2052	-	170,600	170,600
2053-2057	250,000	165,540	415,540
2058-2062	-	120,000	120,000
2063-2067	-	120,000	120,000
2068-2072	-	120,000	120,000
2073-2077	-	120,000	120,000
2078-2082	-	120,000	120,000
2083-2087	-	120,000	120,000
2088-2092	-	120,000	120,000
2093-2097	-	120,000	120,000
2098-2102	-	120,000	120,000
2103-2107	-	120,000	120,000
2108-2112	500,000	96,000	596,000
Total	$ 3,205,997	$ 4,523,121	$7,729,118

Maturities and interest on debt obligations for the next five years and in five-year periods for the discretely presented component units are as follows:

Discretely Presented Component Units

	Principal	Interest	Total
2018	$ 946	$ 341	$ 1,287
2019	1,114	320	1,434
2020	986	299	1,285
2021	2,555	273	2,828
2022	938	243	1,181
2023-2027	3,744	871	4,615
2028-2032	3,861	482	4,343
2033-2037	2,540	87	2,627
Total	$ 16,684	$ 2,916	$ 19,600

General receipts bonds are backed by the unrestricted receipts of the university, excluding certain items as described in the bond indentures.

The outstanding bond indentures do not require mandatory reserves for future payment of principal and interest. However, the university has set aside $323,350 for future debt service which is included in unrestricted net position.

The university has defeased various bonds by placing the proceeds of new bonds into an irrevocable trust to provide for all future debt service payments on the old bonds. The defeased bonds for the primary institution are as follows:

	Amount Defeased	Amount Outstanding at June 30, 2017
General Receipts Bonds:		
Series 2008A	$ 26,945	$ 20,750
Series 2010A	13,050	4,720
Series 2010D	3,710	3,710
Total	$ 43,705	$ 29,180

Notes to Financial Statements | Years Ended June 30, 2017 and 2016 (dollars in thousands)

Neither the outstanding indebtedness nor the related trust account assets for the above bonds are included in the university's financial statements.

Special-Purpose General Receipts Bonds

In January 2013, the university issued $337,955 of Special Purpose General Receipts Bonds, Series 2013A. These bonds are solely payable from, and secured by, a pledge of the gross revenues of Special Purpose Revenue Facilities. Special Purpose Revenue Facilities are defined in the Series 2013 Supplement as all housing and dining facilities and such auxiliary facilities as shall constitute recreation facilities owned by the university. The bond indenture agreement includes a debt covenant, requiring the university "to set rates, charges and fees in each Fiscal Year so as to cause Special Purpose Pledged Revenues to be in an amount not less than 1.10 times the aggregate debt service for the then-current Fiscal Year on all Special Purpose General Receipts Obligations." At June 30, 2017, the university is in compliance with this covenant. Condensed financial information for the Special Purpose Revenue Facilities is provided in Note 21.

Variable Rate Demand Bonds

Series 1997, 1999B1, 2001, 2003C, 2005B, 2008B, 2010E and 2014B variable rate demand bonds bear interest at rates based upon yield evaluations at par of comparable securities. The maximum interest rate allowable and the effective average interest rate from issue date to June 30, 2017 are as follows:

Series:	Interest Rate Not to Exceed	Effective Average Interest Rate
1997	12%	1.496%
1999B1	12%	1.278%
2001	12%	1.067%
2003C	12%	1.424%
2005B	12%	0.975%
2008B	12%	0.317%
2010E	8%	0.188%
2014 B	not specified	0.306%

At the discretion of the university, the interest rate on the bonds can be converted to a fixed rate. The bonds may be redeemed by the university or sold by the bondholders to a remarketing agent appointed by the university at any time prior to conversion to a fixed rate at a price equal to the principal amount plus accrued interest.

The university's variable rate demand bonds mature at various dates through 2044. GASB Interpretation No. 1, *Demand Bonds Issued by State and Local Governmental Entities*, provides guidance on the statement of net position classification of these bonds. Under GASB Interpretation No. 1, outstanding principal balances on variable rate demand bonds may be classified as non-current liabilities if the issuer has entered into a "take-out agreement" to convert bonds "put" but not resold into some other form of long-term obligation. In the absence of such an agreement, the total outstanding principal balances for these bonds are required to be classified as current liabilities.

Although it is the university's intent to repay its variable rate demand bonds in accordance with the maturities set forth in the bond offering circulars, the university does not have "take-out agreements" in place per the GASB Interpretation No. 1 requirements. Accordingly, the university has classified the total outstanding principal balances on its variable rate demand bonds as current liabilities. The obligations totaled $588,360 and $596,435 at June 30, 2017 and 2016, respectively.

Capital Lease Obligations

Some university equipment items and vehicles are financed as capital leases. The original cost and lease obligations related to these capital leases as of June 30, 2017 are $17,523 and $8,548, respectively. The original cost and lease obligations related to these capital leases as of June 30, 2016 are $13,338 and $4,547, respectively.

Capitalization of Interest

Interest incurred during the construction of capital assets is included in the cost of the asset when capitalized. Total interest costs incurred for the years ended June 30, 2017 and 2016 for the primary institution were $124,240 and $105,619, respectively. Of these amounts, interest of $3,169 and $11,734 was capitalized in the years ended June 30, 2017 and 2016, respectively. The remaining amounts, $121,071 and $93,885 for the years ended June 30, 2017 and 2016, respectively, are reported as interest expense in the statement of revenues, expenses and changes in net position.

Notes to Financial Statements | Years Ended June 30, 2017 and 2016 (dollars in thousands)

NOTE 10 — OPERATING LEASES

The university leases various buildings, office space, and equipment under operating lease agreements. These facilities and equipment are not recorded as assets on the statement of net position. The total rental expense under these agreements was $24,836 and $30,152 for the years ended June 30, 2017 and 2016, respectively.

Future minimum payments for all significant operating leases with initial or remaining terms in excess of one year as of June 30, 2017 are as follows:

Year Ending June 30,	Primary Institution	Discretely Presented Component Units
2018	$ 18,870	$ 1,894
2019	17,335	962
2020	16,621	715
2021	14,694	610
2022	14,060	552
2023-2027	50,321	1,576
2028-2032	29,529	124
2033-2037	2,360	-
2038-2042	836	-
2043-2047	1,077	-
2048-2052	1,068	-
2053-2057	1,368	-
2058-2062	1,368	-
2063 and beyond	1,083	-
Total minimum lease payments	$ 170,590	$ 6,433

NOTE 11 — COMPENSATED ABSENCES

University employees earn vacation and sick leave on a monthly basis.

Classified civil service employees may accrue vacation benefits up to a maximum of three years credit. Administrative and professional staff and faculty may accrue vacation benefits up to a maximum of 240 hours. For all classes of employees, any earned but unused vacation benefit is payable upon termination.

Sick leave may be accrued without limit. However, earned but unused sick leave benefits are payable only upon retirement from the university with ten or more years of service with the state. The amount of sick leave benefit payable at retirement is one fourth of the value of the accrued but unused sick leave up to a maximum of 240 hours.

The university accrues sick leave liability for those employees who are currently eligible to receive termination payments as well as other employees who are expected to become eligible to receive such payments. This liability is calculated using the "termination payment method" which is set forth in Appendix C, Example 4 of the GASB Statement No. 16, *Accounting for Compensated Absences*. Under the termination method, the university calculates a ratio, Sick Leave Termination Cost per Year Worked, that is based on the university's actual historical experience of sick leave payouts to terminated employees. This ratio is then applied to the total years-of-service for current employees.

Certain employees of the university (mostly classified civil service employees) receive compensation time in lieu of overtime pay. Any unused compensation time must be paid to the employee at termination or retirement.

Notes to Financial Statements | Years Ended June 30, 2017 and 2016 (dollars in thousands)

NOTE 12 — OTHER LIABILITIES

Other liability activity for the primary institution for the year ended June 30, 2017 is as follows:

Primary Institution

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Compensated absences	$ 171,012	$ 18,808	$ 12,613	$ 177,207	$ 12,613
Self-insurance accruals	143,023	316,403	329,556	129,870	48,631
Amounts due to third party payers	71,228	23,781	28,483	66,526	28,494
Obligations under life income agreements	33,225	2,567	1,700	34,092	3,619
Refundable advances for Federal Perkins loans	32,110	-	396	31,714	-
Other non-current liabilities	113,057	-	11,355	101,702	-
Total	$ 563,655	$ 361,559	$ 384,103	$ 541,111	$ 93,357

Other liability activity for the primary institution for the year ended June 30, 2016 is as follows:

Primary Institution

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Compensated absences	$ 166,356	$ 15,794	$ 11,138	$ 171,012	$ 11,138
Self-insurance accruals	151,261	338,595	346,833	143,023	48,407
Amounts due to third party payers	52,811	62,585	44,168	71,228	28,483
Obligations under life income agreements	28,944	7,721	3,440	33,225	3,949
Refundable advances for Federal Perkins loans	32,228	-	118	32,110	-
Other non-current liabilities	84,140	28,917	-	113,057	-
Total	$ 515,740	$ 453,612	$ 405,697	$ 563,655	$ 91,977

Notes to Financial Statements | Years Ended June 30, 2017 and 2016 (dollars in thousands)

NOTE 13 – RENTALS UNDER OPERATING LEASES

The university is the lessor of certain land, buildings, office and retail space under operating lease agreements. Future minimum rental income from non-cancelable operating leases for the primary institution as of June 30, 2017 is as follows:

Year Ending June 30,

2018	$ 4,868
2019	4,263
2020	3,710
2021	2,867
2022	2,449
2023–2027	8,659
2028–2032	3,991
2033–2037	3,043
2038–2042	1,868
2043–2047	158
2048–2052	53
Total minimum future rentals	$ 35,929

NOTE 14 – OPERATING EXPENSES BY OBJECT

In accordance with requirements set forth by the Ohio Board of Regents, the university reports operating expenses by functional classification on the Statement of Revenues, Expenses and Other Changes in Net Position. Operating expenses by object for the primary institution for the years ended June 30, 2017 and 2016 are summarized as follows:

Year Ended June 30, 2017
Primary Institution

	Compensation and Benefits	Supplies and Services	Scholarships and Fellowships	Depreciation	Total
Instruction	$ 888,236	$ 118,175	$ -	$ -	$ 1,006,411
Separately budgeted research	340,784	156,724	-	-	497,508
Public service	104,285	70,816	-	-	175,101
Academic support	180,431	41,612	-	-	222,043
Student services	84,593	23,448	-	-	108,041
Institutional support	124,620	130,162	-	-	254,782
Operation and maintenance of plant	35,143	59,544	-	-	94,687
Scholarships and fellowships	7,263	1,697	121,109	-	130,069
Auxiliary enterprises	187,806	125,379	-	-	313,185
OSU Health System	1,397,568	1,198,229	-	-	2,595,797
Depreciation	-	-	-	374,615	374,615
Total operating expenses	$ 3,350,729	$ 1 ,925,786	$ 121,109	$ 374,615	$ 5,772,239

Year Ended June 30, 2016
Participant Institution

	Compensation and Benefits	Supplies and Services	Scholarships and Fellowships	Depreciation	Total
Instruction	$ 866,910	$ 127,377	$ -	$ -	$ 994,287
Separately budgeted research	296,748	147,329	-	-	444,077
Public service	90,729	69,552	-	-	160,281
Academic support	169,078	38,610	-	-	207,688
Student services	78,115	25,669	-	-	103,784
Institutional support	117,693	109,464	-	-	227,157
Operation and maintenance of plant	32,547	68,460	-	-	101,007
Scholarships and fellowships	6,308	2,189	112,465	-	120,962
Auxiliary enterprises	153,389	100,748	-	-	254,137
OSU Health System	1,231,265	1,019,765	-	-	2,251,030
Depreciation	-	-	-	351,901	351,901
Total operating expenses	$ 3,042,782	$ 1,709,163	$ 112,465	$ 351,901	$ 5,216,311

Notes to Financial Statements | Years Ended June 30, 2017 and 2016 (dollars in thousands)

NOTE 15 — RETIREMENT PLANS

University employees are covered by one of three retirement systems. The university faculty is covered by the State Teachers Retirement System of Ohio (STRS Ohio). Substantially all other employees are covered by the Public Employees Retirement System of Ohio (OPERS). Employees may opt out of STRS Ohio and OPERS and participate in the Alternative Retirement Plan (ARP) if they meet certain eligibility requirements.

STRS Ohio and OPERS each offer three separate plans: 1) a defined benefit plan, 2) a defined contribution plan and 3) a combined plan. Each of these three options is discussed in greater detail in the following sections.

Defined Benefit Plans

STRS Ohio and OPERS offer statewide cost-sharing multiple-employer defined benefit pension plans. STRS Ohio and OPERS provide retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefits are established by state statute and are calculated using formulas that include years of service and final average salary as factors. Both STRS Ohio and OPERS issue separate, publicly available financial reports that include financial statements and required supplemental information. These reports may be obtained by contacting the two organizations.

STRS Ohio
275 East Broad Street
Columbus, OH 43215-3371
(614) 227-4090
(888) 227-7877
www.strsoh.org

OPERS
Attn: Finance Director
277 East Town Street
Columbus, OH 43215-4642
(614) 222-5601
(800) 222-7377
www.opers.org/financial/reports.shtml#CAFR

In accordance with GASB Statement No. 68, employers participating in cost-sharing multiple employer plans are required to recognize a proportionate share of the collective net pension liabilities of the plans. Although changes in the net pension liability generally are recognized as pension expense in the current period, GASB 68 requires certain items to be deferred and recognized as expense in future periods. Deferrals for differences between projected and actual investment returns are amortized to pension expense over five years. Deferrals for employer contributions subsequent to the measurement date are amortized in the following period (one year). Other deferrals are amortized over the estimated remaining service lives of both active and inactive employees (amortization periods range from 3 to 9 years).

The collective net pension liabilities of the retirement systems and the university's proportionate share of these net pension liabilities as of June 30, 2017 are as follows:

	STRS Ohio	OPERS	Total
Net pension liability - all employers	$ 33,473,014	$ 22,652,226	
Proportion of the net pension liability - university	4.5%	9.1%	
Proportionate share of net pension liability	$ 1,510,814	$ 2,054,548	$ 3,565,362

The collective net pension liabilities of the retirement systems and the university's proportionate share of these net pension liabilities as of June 30, 2016 are as follows:

	STRS Ohio	OPERS	Total
Net pension liability - all employers	$ 27,637,075	$ 17,272,216	
Proportion of the net pension liability - university	4.5%	9.0%	
Proportionate share of net pension liability	$ 1,238,470	$ 1,556,156	$ 2,794,626

Notes to Financial Statements | Years Ended June 30, 2017 and 2016 (dollars in thousands)

Deferred outflows of resources and deferred inflows of resources for pensions were related to the following sources as of June 30, 2017:

	STRS Ohio	OPERS	Total
Deferred Outflows of Resources:			
Differences between expected and actual experience	$ 61,044	$ 3 ,296	$ 64,340
Changes in assumptions	-	329,038	329,038
Net difference between projected and actual earnings on pension plan investments	125,438	306,350	431,788
Changes in proportion of university contributions	921	1,163	2,084
University contributions subsequent to the measurement date	70,306	94,003	164,309
Total	$ 257,709	$ 733,850	$ 991,559
Deferred Inflows of Resources:			
Differences between expected and actual experience	$ -	$ 16,279	$ 16,279
Changes in proportion of university contributions	-	63	63
Total	$ -	$ 16,342	$ 16,342

Net deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense during the years ending June 30 as follows:

	STRS Ohio	OPERS	Total
2018	$ 100,495	$ 352,017	$ 452,512
2019	30,189	266,590	296,779
2020	77,142	108,889	186,031
2021	49,883	(9,353)	40,530
2022	-	(277)	(277)
2023 and Thereafter	-	(358)	(358)
Total	$ 257,709	$ 717,508	$ 975,217

Deferred outflows of resources and deferred inflows of resources for pensions were related to the following sources as of June 30, 2016:

	STRS Ohio	OPERS	Total
Deferred Outflows of Resources:			
Differences between expected and actual experience	$ 56,459	$ 317	$ 56,776
Net difference between projected and actual earnings on pension plan investments	-	461,637	461,637
Changes in proportion of university contributions	789	1,343	2,132
University contributions subsequent to the measurement date	67,106	88,058	155,164
Total	$ 124,354	$ 551,355	$ 675,709
Deferred Inflows of Resources:			
Differences between expected and actual experience	$ -	$ 33,260	$ 33,260
Net difference between projected and actual earnings on pension plan investments	89,069	-	89,069
Changes in proportion of university contributions	-	40	40
Total	$ 89,069	$ 33,300	$ 122,369

Notes to Financial Statements | Years Ended June 30, 2017 and 2016 (dollars in thousands)

The following table provides additional details on the pension benefit formulas, contribution requirements and significant assumptions used in the measurement of total pension liabilities for the retirement systems.

	STRS Ohio	OPERS
Statutory Authority	Ohio Revised Code Chapter 3307	Ohio Revised Code Chapter 145
Benefit Formula	The annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation is 2.2% of final average salary for the five highest years of earnings multiplied by all years of service. Members are eligible to retire at age 60 with five years of qualifying service credit, or at age 55 with 26 years of service, or 31 years of service regardless of age. Eligibility changes will be phased in until August 1, 2026, when retirement eligibility for unreduced benefits will be five years of service credit and age 65, or 35 years of service credit and at least age 60.	Benefits are calculated on the basis of age, final average salary (FAS), and service credit. State and Local members in transition Groups A and B are eligible for retirement benefits at age 60 with 60 contributing months of service credit or at age 55 with 25 or more years of service credit. Group C for State and Local is eligible for retirement at age 57 with 25 years of service or at age 62 with 5 years of service. For Groups A and B, the annual benefit is based on 2.2% of final average salary multiplied by the actual years of service for the first 30 years of service credit and 2.5% for years of service in excess of 30 years. For Group C, the annual benefit applies a factor of 2.2% for the first 35 years and a factor of 2.5% for the years of service in excess of 35. FAS represents the average of the three highest years of earnings over a member's career for Groups A and B. Group C is based on the average of the five highest years of earnings over a member's career. The base amount of a member's pension benefit is locked in upon receipt of the initial benefit payment for calculation of annual cost-of-living adjustment.
Cost-of-Living Adjustments	With certain exceptions, the basic benefit is increased each year by 2% of the original base benefit. For members retiring Aug. 1, 2013, or later, the first 2% is paid on the fifth anniversary of the retirement benefit. In April 2017, STRS-Ohio announced that, effective July 1, 2017, it would indefinitely suspend the annual COLA for all retirees.	Once a benefit recipient retiring under the Traditional Pension Plan has received benefits for 12 months, an annual 3% cost-of-living adjustment is provided on the member's base benefit.
Contribution Rates	Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. Through June 30, 2016, the employer rate was 14% and the member rate was 13% of covered payroll. The statutory employer rate for fiscal 2017 and subsequent years is 14%. The statutory member contribution rate increased to 14% on July 1, 2016.	Employee and member contribution rates are established by the OPERS Board and limited by Chapter 145 of the Ohio Revised Code. For 2016, employer rates for the State and Local Divisions were 14% of covered payroll (and 18.1% for the Law Enforcement and Public Safety Divisions). Member rates for the State and Local Divisions were 10% of covered payroll (13% for Law Enforcement and 12% for Public Safety).
Measurement Date	June 30, 2016	December 31, 2016
Actuarial Assumptions	**Valuation Date:** July 1, 2016 **Actuarial Cost Method:** Individual entry age **Investment Rate of Return:** 7.75% **Inflation:** 2.75% **Projected Salary Increases:** 2.75% - 12.25% **Cost-of-Living Adjustments:** 2.00% Simple, applied as follows: for members retiring before August 1, 2013, 2% per year; for members retiring August 1, 2013 or later, 2% COLA commences on fifth anniversary of the retirement date.	**Valuation Date:** December 31, 2016 **Actuarial Cost Method:** Individual entry age **Investment Rate of Return:** 7.5% **Inflation:** 3.25% **Projected Salary Increases:** 3.25% - 10.75% **Cost-of-Living Adjustments:** 3.00% Simple – for those retiring after January 7, 2013, 3.00% Simple through 2018, then 2.15% Simple.

Notes to Financial Statements | Years Ended June 30, 2017 and 2016 (dollars in thousands)

	STRS Ohio	OPERS
Mortality Rates	RP-2000 Combined Mortality Table (Projection 2022–Scale AA) for Males and Females. Males' ages are set back two years through age 89 and no setback for age 90 and above. Females younger than age 80 are set back four years, one year set back from age 80 through 89 and no set back from age 90 and above.	RP-2014 Healthy Annuitant mortality table. For males, Healthy Annuitant mortality tables were used, adjusted for mortality improvement back to the observation period base of 2006 and then established the base year as 2015. For females, Healthy Annuitant Mortality tables were used, adjusted for mortality improvements back to the observation period base year of 2006 and then established the base year as 2010. The mortality rates used in evaluating disability allowances were based on the RP-2014 Disabled mortality tables, adjusted for mortality improvement back to the observation base year of 2006 and then established the base year as 2015 for males and 2010 for females. Mortality rates for a particular calendar year for both healthy and disabled retiree mortality tables are determined by applying the MP-2015 mortality improvement scale to the above described tables.
Date of Last Experience Study	July 1, 2012	December 31, 2015
Investment Return Assumptions	The 10 year expected real rate of return on pension plan investments was determined by STRS Ohio's investment consultant by developing best estimates of expected future real rates of return for each major asset class. The target allocation and longterm expected real rate of return for each major asset class are summarized as follows:	The long term expected rate of return on defined benefit investment assets was determined using a building-block method in which best-estimate ranges of expected future real rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage, adjusted for inflation. The following table displays the Board-approved asset allocation policy for 2016 and the long-term expected real rates of return:

STRS Ohio:

Asset Class	Target Allocation	Long Term Expected Return*
Domestic Equity	31.0%	8.00%
International Equity	26.0%	7.85%
Alternatives	14.0%	8.00%
Fixed Income	18.0%	3.75%
Real Estate	10.0%	6.75%
Liquidity Reserves	1.0%	3.00%
Total	100%	

* Returns presented as geometric means

OPERS:

Asset Class	Target Allocation	Long Term Expected Return*
Fixed Income	23.0%	2.75%
Domestic Equity	20.7%	6.34%
Real Estate	10.0%	4.75%
Private Equity	10.0%	8.97%
International Equity	18.3%	7.95%
Other Investments	18.0%	4.92%
Total	100%	

* Returns presented as geometric means

Notes to Financial Statements | Years Ended June 30, 2017 and 2016 (dollars in thousands)

	STRS Ohio			OPERS		
Discount Rate	The discount rate used to measure the total pension liability was 7.75% as of June 30, 2016. The projection of cash flows used to determine the discount rate assumes that member and employer contributions will be made at the statutory contribution rates in accordance with the rate increases described above. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, STRS Ohio's fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2016. Therefore, the long-term expected rate of return on pension plan investments of 7.75% was applied to all periods of projected benefit payments to determine the total pension liability as of June 30, 2016.			The discount rate used to measure the total pension liability was 7.5% for the Traditional Pension Plan, the Combined Plan and the Member-Directed Plan. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers are made at the statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.		
Sensitivity of Net Pension Liability to Changes in Discount Rate	1% Decrease (6.75%)	Current Rate (7.75%)	1% Increase (8.75%)	1% Decrease (7.00%)	Current Rate (8.00%)	1% Increase (9.00%)
	$ 2,007,749	$ 1,510,814	$ 1,091,620	$ 3,147,036	$ 2,054,548	$ 1,144,550

Changes in Assumptions between Measurement Date and Report Date

In March 2017, the STRS-Ohio Board adopted certain assumption changes, which will impact their annual actuarial valuation prepared as of June 30, 2017. The most significant change is a reduction in the discount rate from 7.75% to 7.45%. Also, in April 2017, the STRS-Ohio Board voted to suspend cost of living adjustments granted on or after July 1, 2017. Although the exact amounts of these changes are not known, they are expected to have a significant impact on net pension liabilities to be reported at June 30, 2018.

Defined Contribution Plans

ARP is a defined contribution pension plan. Full-time administrative and professional staff and faculty may choose enrollment in ARP in lieu of OPERS or STRS Ohio. Classified civil service employees hired on or after August 1, 2005 are also eligible to participate in ARP. ARP does not provide disability benefits, annual cost-of-living adjustments, post-retirement health care benefits or death benefits to plan members and beneficiaries. Benefits are entirely dependent on the sum of contributions and investment returns earned by each participant's choice of investment options.

OPERS also offers a defined contribution plan, the Member-Directed Plan (MD). The MD plan does not provide disability benefits, annual cost-of-living adjustments, post-retirement health care benefits or death benefits to plan members and beneficiaries. Benefits are entirely dependent on the sum of contributions and investment returns earned by each participant's choice of investment options.

STRS Ohio also offers a defined contribution plan in addition to its long established defined benefit plan. Employer contributions at a rate of 9.5% and all employee contributions are placed in an investment account directed by the employee. Disability benefits are limited to the employee's account balance. Employees electing the defined contribution plan receive no post-retirement health care benefits.

Notes to Financial Statements | Years Ended June 30, 2017 and 2016 (dollars in thousands)

Combined Plans

STRS Ohio offers a combined plan with features of both a defined contribution plan and a defined benefit plan. In the combined plan, employee contributions are invested in self-directed investments, and the employer contribution is used to fund a reduced defined benefit. Employees electing the combined plan receive post-retirement health care benefits.

OPERS also offers a combined plan. This is a cost-sharing multiple-employer defined benefit plan that has elements of both a defined benefit and defined contribution plan. In the combined plan, employee contributions are invested in self-directed investments, and the employer contribution is used to fund a reduced defined benefit. Employees electing the combined plan receive post-retirement health care benefits. OPERS provides retirement, disability, survivor and post-retirement health benefits to qualifying members of the combined plan.

Summary of Employer Pension Expense

Total pension expense for the year ended June 30, 2017, including employer contributions and accruals associated with recognition of net pension liabilities and related deferrals, is presented below.

	STRS Ohio	OPERS	ARP	Total
Employer Contributions	$ 70,373	$ 188,762	$ 56,425	$ 315,560
GASB 68 Accruals	49,919	298,941	-	348,860
Total Pension Expense	$ 120,292	$ 487,703	$ 56,425	$ 664,420

Total pension expense for the year ended June 30, 2016, including employer contributions and accruals associated with recognition of net pension liabilities and related deferrals, is presented below.

	STRS Ohio	OPERS	ARP	Total
Employer Contributions	$ 66,975	$ 178,293	$ 53,423	$ 298,691
GASB 68 Accruals	11,006	100,197	-	111,203
Total Pension Expense	$ 77,981	$ 278,490	$ 53,423	$ 409,894

Pension expense is allocated to institutional functions on the Statement of Revenues, Expenses and Other Changes in Net Position.

Post-Retirement Health Care Benefits

STRS Ohio currently provides access to health care coverage to retirees who participated in the defined benefit or combined plans and their dependents. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs, and partial reimbursement of monthly Medicare Part B premiums. Pursuant to ORC, STRS Ohio has discretionary authority over how much, if any, of the associated health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of the health care costs in the form of monthly premiums. Under ORC, medical costs paid from the funds of STRS Ohio are included in the employer contribution rate. For the fiscal year ended June 30, 2016, STRS Ohio made no allocation of employer contributions for post-employment health care.

OPERS currently provides post-employment health care benefits to retirees with ten or more years of qualifying service credit. These benefits are advance-funded on an actuarially determined basis and are financed through employer contributions and investment earnings. OPERS determines the amount, if any, of the associated health care costs that will be absorbed by OPERS. Under Ohio Revised Code (ORC), funding for medical costs paid from the funds of OPERS is included in the employer contribution rate. For calendar years 2016 and 2017, OPERS allocated 2.0% and 1.0%, respectively, of the employer contribution rate to fund the health care program for retirees.

Notes to Financial Statements | Years Ended June 30, 2017 and 2016 (dollars in thousands)

OSU Physicians Retirement Plan

Retirement benefits are provided for the employees of OSUP through a tax-sheltered 403(b) and 401(a) program administered by an insurance company. OSUP is required to make non-discretionary contributions of no less than 7.5% under the Interim Retirement Plan; however, some subsidiaries make an additional discretionary contribution of up to 17.5%, for a range of total employer contributions of 7.5% to 25%. Employees are allowed, but not required, to make contributions to the 403(b) plan. OSUP's share of the cost of these benefits was $4,619 and $3,949 for the years ended June 30, 2017 and 2016, respectively.

Employee contributions were $1,745 and $1,603 for the years ended June 30, 2017 and 2016.

NOTE 16 — CAPITAL PROJECT COMMITMENTS

At June 30, 2017, the university is committed to future contractual obligations for capital expenditures of approximately $262,286.

These projects are funded by the following sources:

State appropriations	$ 72,999
Internal and other sources	189,287
Total	$ 262,286

NOTE 17 — CONTINGENCIES AND RISK MANAGEMENT

The university is a party in a number of legal actions. While the final outcome cannot be determined at this time, management is of the opinion that the liability, if any, for these legal actions will not have a material adverse effect on the university's financial position.

The university is self-insured for the Health System's professional malpractice liability, employee health benefits, workers' compensation and employee life, accidental death and dismemberment benefits. Additional details regarding these self-insurance arrangements are provided in Note 8. The university also carries commercial insurance policies for various property, casualty and excess liability risks. Over the past three years, settlement amounts related to these insured risks have not exceeded the university's coverage amounts.

Under the terms of federal grants, periodic audits are required and certain costs may be questioned as not being appropriate expenditures under the terms of the grants. Such audits could lead to reimbursements to the grantor agencies. While questioned costs may occur, ultimate repayments required of the university have been infrequent in prior years.

NOTE 18 — PARKING LEASE AND CONCESSION AGREEMENT

On September 21, 2012, the university entered into a 50-year lease and concession agreement with QIC Global Infrastructure (QIC GI). CampusParc LP, a QIC GI affiliate, owns and operates the university's parking concession on QIC GI's behalf. Under the agreement, CampusParc operates, maintains and retains parking revenues from the university's parking lots and garages. This agreement also regulates the parking rates that may be charged and future increases in these rates. The university received lump-sum payments totaling $483,000 from QIC GI and used the proceeds to establish endowment funds, with income distributions internally designated to support student scholarships, faculty initiatives and research, transportation and sustainability and the university arts district.

The lump-sum payment under this service concession arrangement is reported as a deferred inflow of resources and is being amortized to operating revenue over the life of the agreement. Deferred inflows related to the parking agreement were $435,807 and $445,439 at June 30, 2017 and 2016, respectively. The university reports the parking lots and garages as capital assets with a carrying amount of $124,417 and $124,985 at June 30, 2017 and 2016, respectively.

Notes to Financial Statements | Years Ended June 30, 2017 and 2016 (dollars in thousands)

NOTE 19 – COMBINING INFORMATION FOR BLENDED COMPONENT UNITS

As indicated in the Basis of Presentation in Note 1, the university consolidates certain component units in a blended presentation. Condensed combining financial information for the years ended June 30, 2017 and 2016 is presented below..

Condensed Combining Information – Year Ended June 30, 2017

	OSU Foundation	OSU Health Plan	Oval Limited
Condensed statements of net position:			
Current assets	$ 47,236	$ 6,252	$ 50,634
Capital assets, net	3,271	168	-
Other assets	1,002,456	585	-
Total assets	$ 1,052,963	$ 7,005	$ 50,634
Current liabilities	$ 3,748	$ 2,546	$ 44
Non-current liabilities	48,025	467	21,895
Amounts payable to the university	1,853	-	-
Total liabilities	53,626	3,013	21,939
Net investment in capital assets	3,271	-	-
Restricted:			
Non-expendable	824,383	-	-
Expendable	158,733	-	-
Unrestricted	12,950	3,992	28,695
Total net position	999,337	3,992	28,695
Total liabilities and net position	$ 1,052,963	$ 7,005	$ 50,634

	OSU Foundation	OSU Health Plan	Oval Limited
Condensed statements of revenues, expenses and changes in net position			
Operating revenues:			
Other sales, services and rental income	$ 1,885	$ 10,730	$ 1,406
Total operating revenues	1,885	10,730	1,406
Operating expenses, excluding depreciation	22,380	10,787	193
Depreciation expense	247	-	-
Total operating expenses	22,627	10,787	193
Net operating income (loss)	(20,742)	(57)	1,213
Non-operating revenues and expenses:			
Gifts for current use	179,912	-	-
Net investment income (loss)	116,623	-	3,010
Net non-operating revenue (expense)	296,535	-	3,010
Capital contributions and additions to permanent endowments	79,229	-	-
Transfers from (to) the university	(235,448)	-	-
Change in net position	119,574	(57)	4,223
Beginning net position	879,763	4,049	24,472
Ending net position	$ 999,337	$ 3,992	$ 28,695
Condensed statements of cash flows:			
Net cash provided (used) by:			
Operating activities	$ (19,578)	$ 1,817	$ (1,264)
Non-capital financing activities	(6,519)	(2,081)	-
Capital and related financing activities	26,771	(138)	-
Investing activities	1,195	62	3,023
Net increase (decrease) in cash	1,869	(340)	1,759
Beginning cash and cash equivalents	2,494	5,994	1,758
Ending cash and cash equivalents	$ 4,363	$ 5,654	$ 3,517

Notes to Financial Statements | Years Ended June 30, 2017 and 2016 (dollars in thousands)

Condensed Combining Information – Year Ended June 30, 2016

	OSU Foundation	OSU Health Plan	Oval Limited
Condensed statements of net position:			
Current assets	$ 47,947	$ 6,764	$ 51,449
Capital assets, net	3,518	31	-
Other assets	879,169	648	-
Amounts receivable from the university	-	-	-
Deferred outflows	-	-	-
Total assets and deferred inflows	$ 930,634	$ 7,443	$ 51,449
Current liabilities	$ 3,881	$ 885	$ 50
Non-current liabilities	45,442	428	26,927
Amounts payable to the university	1,548	2,081	-
Deferred inflows	-	-	-
Total liabilities and deferred inflows	50,871	3,394	26,977
Net investment in capital assets	3,518	-	-
Restricted:			
Nonexpendable	744,159	-	-
Expendable	121,124	-	-
Unrestricted	10,962	4,049	24,472
Total net position	879,763	4,049	24,472
Total liabilities, deferred inflows and net position	$ 930,634	$ 7,443	$ 51,449

	OSU Foundation	OSU Health Plan	Oval Limited
Condensed statements of revenues, expenses and changes in net position			
Operating revenues:			
Grants and contracts	$ -	$ -	$ -
Sales and services of OSU Physicians	-	-	-
Other sales, services and rental income	1,846	12,138	759
Other operating	-	-	-
Total operating revenues	1,846	12,138	759
Operating expenses, excluding depreciation	22,531	11,581	152
Depreciation expense	247	-	-
Total operating expenses	22,778	11,581	152
Net operating income (loss)	(20,932)	557	607
Non-operating revenues and expenses:			
Gifts for current use	156,737	-	-
Net investment income (loss)	(12,441)	-	502
Interest expense	-	-	-
Other non-operating revenue (expense)	-	-	-
Net non-operating revenue (expense)	144,296	-	502
Capital contributions and additions to permanent endowments	75,415	-	-
Transfers from (to) the university	(197,297)	-	-
Change in net position	1,482	557	1,109
Beginning net position	878,281	3,492	23,363
Ending net position	$ 879,763	$ 4,049	$ 24,472
Condensed statements of cash flows:			
Net cash provided (used) by:			
Operating activities	$ (19,660)	$ 39	$ 1,198
Non-capital financing activities	29,991	1,332	-
Capital and related financing activities	10,422	104	-
Investing activities	(21,536)	(31)	(12,295)
Net increase (decrease) in cash	(783)	1,444	(11.097)
Beginning cash and cash equivalents	3,276	4,551	12,854
Ending cash and cash equivalents	$ 2,493	$ 5,995	$ 1,757

Notes to Financial Statements | Years Ended June 30, 2017 and 2016 (dollars in thousands)

NOTE 20 – COMBINING INFORMATION FOR DISCRETELY PRESENTED COMPONENT UNITS

As indicated in the Basis of Presentation in Note 1, the university consolidates certain component units in a discrete presentation. Condensed combining financial information for the years ended June 30, 2017 and 2016 is presented below.

Condensed Combining Information – Year Ended June 30, 2017

	OSU Physicians	Campus Partners	Transportation Research Center	Dental Faculty Practice Plan
Condensed statements of net position:				
Current assets	$ 164,004	$ 9,581	$ 11,319	$ 1,485
Capital assets, net	24,330	88,410	9,341	86
Other assets	1,602	2,612	-	-
Amounts receivable from the university	8,663	-	4,002	-
Deferred outflows	-	-	155	-
Total assets and deferred inflows	$ 198,599	$ 100,603	$ 24,817	$ 1,571
Current liabilities	$ 12,719	$ 7,370	$ 7,724	$ 55
Non-current liabilities	13,931	25,373	382	-
Amounts payable to the university	19,401	77,894	6,000	-
Deferred inflows	-	-	10	-
Total liabilities and deferred inflows	46,051	110,637	14,116	55
Net investment in capital assets	9,640	86,363	9,341	86
Unrestricted	142,908	(96,397)	1,360	1,430
Total net position	152,548	(10,034)	10,701	1,516
Total liabilities, deferred inflows and net position	$ 198,599	$ 100,603	$ 24,817	$ 1,571

	OSU Physicians	Campus Partners	Transportation Research Center	Dental Faculty Practice Plan
Condensed statements of revenues, expenses and changes in net position				
Operating revenues:				
Grants and contracts	$ -	$ 12,693	$ 47,007	$ -
Sales and services of OSU Physicians	496,364	-	-	-
Other sales, services and rental income	-	-	-	8,935
Total operating revenues	496,364	12,693	47,007	8,935
Operating expenses, excluding depreciation	444,362	10,779	46,417	6,079
Depreciation expense	3,740	3,121	250	27
Total operating expenses	448,102	13,900	46,667	6,106
Net operating income (loss)	48,262	(1,207)	340	2,829
Non-operating revenues and expenses:				
Net investment income (loss)	215	103	163	-
Interest expense	(369)	(1,154)	(61)	-
Other non-operating revenue (expense)	(18,605)	(9,451)	-	(2,713)
Net non-operating revenue (expense)	(18,759)	(10,502)	102	(2,713)
Change in net position	29,503	(11,709)	442	116
Beginning net position	123,045	1,675	10,259	1,400
Ending net position	$ 152,548	$ (10,034)	$ 10,701	$ 1,516
Condensed statements of cash flows:				
Net cash provided (used) by:				
Operating activities	$ 58,225	$ 6,596	$ 174	$2,883
Non-capital financing activities	(18,604)	(1,519)	5,667	(2,714)
Capital and related financing activities	(5,049)	(3,742)	(4,587)	(70)
Investing activities	1,357	39	162	(92)
Net increase (decrease) in cash	35,929	1,374	1,416	7
Beginning cash and cash equivalents	79,695	5,975	937	394
Ending cash and cash equivalents	$ 115,624	$ 7,349	$ 2,353	$401

Notes to Financial Statements | Years Ended June 30, 2017 and 2016 (dollars in thousands)

Condensed Combining Information – Year Ended June 30, 2016

	OSU Physicians	Campus Partners	Transportation Research Center	Dental Faculty Practice Plan
Condensed statements of net position:				
Current assets	$ 131,333	$ 11,599	$ 9,029	$ 1,369
Capital assets, net	24,297	92,373	1,250	44
Other assets	5,209	-	-	-
Amounts receivable from the university	15,481	-	3,670	-
Deferred outflows	-	-	124	-
Total assets and deferred inflows	$ 176,320	$ 103,972	$ 14,073	$ 1,413
Current liabilities	$ 14,365	$ 31,413	$ 3,441	$ 13
Non-current liabilities	15,140	-	366	-
Amounts payable to the university	23,770	70,884	-	-
Deferred inflows	-	-	7	-
Total liabilities and deferred inflows	53,275	102,297	3,814	13
Net investment in capital assets	6,444	92,373	1,251	-
Restricted:				
Non-expendable	-	-	-	-
Expendable	-	-	-	-
Unrestricted	116,601	(90,698)	9,008	1,400
Total net position	123,045	1,675	10,259	1,400
Total liabilities, deferred inflows and net position	$ 176,320	$ 103,972	$ 14,073	$ 1,413

	OSU Physicians	Campus Partners	Transportation Research Center	Dental Faculty Practice Plan
Condensed statements of revenues, expenses and changes in net position				
Operating revenues:				
Grants and contracts	$ -	$ 8,498	$ 44,456	$ -
Sales and services of OSU Physicians	487,429	-	-	-
Other sales, services and rental income	-	-	-	8,758
Other operating	-	-	-	-
Total operating revenues	487,429	8,498	44,456	8,758
Operating expenses, excluding depreciation	441,333	9,816	44,052	5,452
Depreciation expense	4,326	1,821	242	36
Total operating expenses	445,659	11,637	44,294	5,488
Net operating income (loss)	41,770	(3,139)	162	3,270
Non-operating revenues and expenses:				
Gifts for current use	-	-	-	-
Net investment income (loss)	76	(91)	(154)	-
Interest expense	(395)	(1,215)	-	-
Other non-operating revenue (expense)	(9,422)	4,044	-	(3,172)
Net non-operating revenue (expense)	(9,741)	2,738	(154)	(3,172)
Capital contributions and additions to permanent endowments	-	3,789	-	-
Change in net position	32,029	3,388	8	98
Beginning net position, as previously reported	91,016	(1,713)	10,251	1,302
Ending net position	$ 123,045	$ 1,675	$ 10,259	$ 1,400
Condensed statements of cash flows:				
Net cash provided (used) by:				
Operating activities	$ 28,792	$ 26,882	$ (374)	$ 3,276
Non-capital financing activities	(9,422)	15,283	306	(3,172)
Capital and related financing activities	(3,703)	(42,232)	(977)	-
Investing activities	(4,079)	(91)	(154)	(34)
Net increase (decrease) in cash	11,588	(158)	(1,199)	70
Beginning cash and cash equivalents	68,107	6,134	2,139	324
Ending cash and cash equivalents	$ 79,695	$ 5,976	$ 940	$ 394

Notes to Financial Statements | Years Ended June 30, 2017 and 2016 (dollars in thousands)

NOTE 21 – SEGMENT INFORMATION

A segment is an identifiable activity for which one or more revenue bonds are outstanding. A segment has a specific identifiable revenue stream pledged in support of revenue bonds or other revenue-backed debt and has related expenses, gains, losses, assets and liabilities that can be identified. The university has one segment that meets the GASB reporting requirements.

The Office of Student Life operates student housing, dining and recreational sports facilities on the university's main and regional campuses. In January 2013, the university issued $337,955 of Special Purpose General Receipts Bonds, Series 2013A. These bonds are solely payable from, and secured by, a pledge of the gross revenues of Special Purpose Revenue Facilities. Special Purpose Revenue Facilities are defined in the Series 2013 Supplement as all housing and dining facilities and such auxiliary facilities as shall constitute recreation facilities owned by the university. Special Purpose Pledged Revenues include all revenues, fees, rentals, rates, charges, insurance proceeds and other moneys derived from the ownership or operation of these facilities. Special Purpose Pledged Revenues totaled $213,564 and $172,002 for the years ended June 30, 2017 and 2016, respectively.

Condensed financial information for the Special Purpose Revenue Facilities, before the elimination of certain intra-university transactions, as of and for the years ended June 30, 2017 and 2016 is as follows:

Segment Disclosure Information – Year Ended June 30, 2017 and June 30, 2016

	2017	2016
Condensed Statement of Net Position		
Assets and deferred outflows:		
Current assets	$ 26,022	$ 24,926
Capital assets	725,840	728,836
Other assets	2,356	35,464
Total assets and deferred inflows	$ 754,218	$ 789,226
Liabilities and deferred inflows:		
Current liabilities	$ 7,365	$ 6,943
Amounts payable to the university	755,890	784,135
Total liabilities	763,255	791,078
Net position:		
Net investment in capital assets	(27,695)	(19,835)
Unrestricted	18,658	17,983
Total net position	(9,037)	(1,852)
Total liabilities, deferred inflows and net position	$ 754,218	$ 789,226
Condensed Statement of Revenues, Expenses and Changes in Net Position		
Special-purpose pledged revenues - operating	$ 213,564	$ 172,002
Operating expenses, excluding depreciation	(141,323)	(121,182)
Depreciation expense	(32,604)	(28,110)
Operating income	39,637	22,710
Non-operating revenues, net	(32,499)	(33,326)
Net income (loss) before transfers	7,138	(10,616)
Transfers from (to) other university units, net	(14,323)	8,366
Increase (decrease) in net assets	(7,185)	(2,250)
Beginning net position	(1,852)	398
Ending net position	$ (9,037)	$ (1,852)
Condensed Statement of Cash Flows		
Net cash provided (used) by:		
Operating activities	$ 533,452	$ 402,744
Capital and related financing activities	(565,713)	(531,575)
Investing activities	180	95
Net increase (decrease) in cash	(32,081)	(128,736)
Beginning cash and cash equivalents	59,242	187,978
Ending cash and cash equivalents	$ 27,161	$ 59,242

NOTE 22 – SUBSEQUENT EVENTS

On April 10, 2017, the university entered into a 50-year agreement to lease the university's utility system to Ohio State Energy Partners and grant it the exclusive right to operate the utility system and provide utility services to the Columbus campus. On July 6, 2017, the university received an upfront payment of $1,089,875. The agreement includes the sale of certain utility-related equipment assets, which will be recognized in Fiscal Year 2018. The majority of the remainder of the upfront payment will be recorded as unearned revenues and amortized to revenue on a straight-line basis over the life of the agreement.

Related to this transaction, the university entered into an interest-rate swap agreement with a bank on April 10, 2017 for a notional amount of $397,000 to hedge interest-rate risk prior to the closing of the utility lease and concession agreement. The university terminated the swap on May 26, 2017 and made a $15,713 payment on July 6, 2017. This payment was reflected in the university's June 30, 2017 financial statements as a non-operating loss and a corresponding current liability.

Required Supplementary Information on GASB 68 Pension Liabilities (Unaudited) | Year Ended June 30, 2017

The schedule of the university's proportionate shares of STRS-Ohio and OPERS net pension liabilities are presented below:

	2017		2016		2015	
(dollars in thousands)	**STRS Ohio**	**OPERS**	**STRS Ohio**	**OPERS**	**STRS Ohio**	**OPERS**
University's proportion of the net pension liability	4.5%	9.1%	4.5%	9.0%	4.4%	8.8%
University's proportionate share of the net pension liability	$ 1,510,814	$ 2,054,548	$ 1,238,470	$ 1,556,155	$ 1,070,914	$ 1,059,519
University's covered payroll	$ 392,797	$ 1,289,346	$ 388,309	$ 1,236,914	$ 381,669	$ 1,188,828
University's proportionate share of the net pension liability as a percentage of its covered payroll	385%	159%	319%	126%	281%	89%
Plan fiduciary net position as a percentage of the total pension liability	66.8%	77.4%	72.1%	81.2%	74.7%	86.5%

The schedule of the university's contributions to STRS-Ohio and OPERS are presented below:

	2017		2016		2015	
(dollars in thousands)	**STRS Ohio**	**OPERS**	**STRS Ohio**	**OPERS**	**STRS Ohio**	**OPERS**
Contractually required contribution	$ 70,373	$ 188,762	$ 66,975	$ 178,293	$ 65,738	$ 170,979
Contributions in relation to the contractually required contribution	$ 70,373	$ 188,762	$ 66,975	$ 178,293	$ 65,738	$ 170,979
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -
University's covered payroll	$ 412,149	$ 1,334,350	$ 392,797	$ 1,260,366	$ 388,309	$ 1,208,710
Contributions as a percentage of covered payroll	17.1%	14.1%	17.1%	14.1%	16.9%	14.1%

Supplementary Information on the Long-Term Investment Pool (Unaudited) | Year Ended June 30, 2017

The following section of the financial report provides additional information on the university's Long-Term Investment Pool, including a summary of changes in market value, investment returns and related expenses. Additional details on university investments, including asset allocations, endowment distribution policies, investment by type and risk disclosures, are provided in Notes 1 and 3 to the Financial Statements.

In 2017, the market value of the university's Long-Term Investment Pool – which includes gifted endowments, long-term investments of university operating funds and other funds internally designated to function as endowments – increased $637 million, to $4.25 billion at June 30, 2017. The Long-Term Investment Pool activity for 2017 is summarized below:

Long-Term Investment Pool Activity (in thousands)

	Gifted Endowments– University	Gifted Endowments– Foundation	Quasi-Endowments– Operating	Quasi-Endowments– Designated	Total
Balance at June 30, 2016	**$ 977,173**	**$ 763,332**	**$ 1,203,959**	**$ 672,098**	**$ 3,616,562**
Net Principal Additions (Withdrawals)	5,966	49,557	(1,309)	269,850	324,064
Change in Fair Value	120,236	97,309	147,630	107,583	472,758
Income Earned	20,242	16,286	24,852	17,604	78,984
Distributions	(42,767)	(34,316)	(52,604)	(36,923)	(166,610)
Expenses	(18,529)	(14,907)	(22,749)	(16,114)	(72,299)
Balance at June 30, 2017	**$ 1,062,321**	**$ 877,261**	**$ 1,299,779**	**$ 1,014,098**	**$ 4,253,459**

Net principal additions (withdrawals) for gifted endowments include new endowment gifts and reinvestment of unused endowment distributions. **Change in fair value** includes realized gains and losses for assets sold during the year and unrealized gains and losses for assets held in the pool at June 30, 2017. **Income earned** includes interest and dividends and is used primarily to fund **distributions**. **Expenses** include investment management expenses ($55 million), University Development related expenses ($16 million) and other investment related expenses ($1 million).

Supplementary Information on the Long-Term Investment Pool | Year Ended June 30, 2017

Investment Returns and Expenses:

The investment return for the Long-Term Investment Pool was 14.5% for fiscal year 2017. The annualized investment returns for the three-year and five-year periods were 4.7% and 7.9%, respectively. These returns — which are net of investment management expenses as defined by Cambridge Associates for its annual survey — are used for comparison purposes with other endowments and various benchmarks. In addition to the $55 million of investment management expenses, which reduced the pool by 1.5% in fiscal year 2017, the $16 million of University Development expenses and $1 million of other investment related expenses further reduced the pool by 0.5%.

Additional Information:

For more information on how the Long-Term Investment Pool is invested, please visit the Office of Investments website at: **investments.osu.edu**.

Additional details on university and foundation endowments, including balances for individual funds, are available on the Office of the Controller's website at: **controller.osu.edu/acc/endow-home.shtm** (click on the "Endowment Descriptions and Balances" link).

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Erica N. Armstrong
Natalie H. Darner
Christopher Davis
Thomas F. Ewing
Rachel R. Ford
Robert L. Hupp, II
Gary L. Leimbach
John C. Lister
Michelle M. McMahon
Lisa A. Plaga
Patricia M. Privette
Wei Qu
Dawn M. Romie
Julie L. Saunders
Katherine M. Seay
Timothy A. Thibodeau
Christopher R. Wagner
Mary J. Wehner

Geoffrey S. Chatas – Senior Vice President and Chief Financial Officer
Kristine G. Devine – Vice President for Operations and Deputy CFO

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2016–2017

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